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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

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	**36-4392754**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

222 Merchandise Mart Plaza, Suite 2024, Chicago, IL 60654
(Address of principal executive offices and zip code)

(312) 506-1200
(Registrant's telephone number, including area code)

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2004, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $275,300,000.

The number of outstanding shares of the registrant's Common Stock as of January 31, 2005, was 38,809,080.

Documents Incorporated by Reference: Portions of the Proxy Statement for the 2005 annual stockholders' meeting are incorporated by reference into Part III.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
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2004 ANNUAL REPORT ON FORM 10-K

PART I

Item 1. Business

General

Allscripts Healthcare Solutions, Inc. ("Allscripts") is a provider of clinical software, connectivity and information solutions that physicians use to improve healthcare. Our business groups provide unique solutions that inform physicians, delivering just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare by improving both the quality and efficiency of care. Our Clinical Solutions Group's software applications include electronic health record ("EHR"), e-prescribing and document imaging solutions. Additionally, we provide healthcare product education and connectivity solutions for physicians and patients through our Physicians Interactive Group and medication fulfillment services through our Medication Services Group.

We report our financial results utilizing three business segments: software and related services segment, information services segment, and prepackaged medications segment. The software and related services segment consists of clinical software solutions offered by our Clinical Solutions Group ("CSG"), such as TouchWorks™, TouchScript® and Impact.MD™. 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. It has the functionality to handle the complexities of large physician practices. TouchScript® is an e-prescribing solution that physicians can access securely via the Internet to quickly, safely and securely prescribe, check for drug interactions, access medication histories, review drug reference information, and send prescriptions directly to a pharmacy. Impact.MD™ is an electronic document imaging and scanning solution that serves as a repository for automated patient charts, office notes, lab results, explanation of benefits ("EOBs") and referral letters among other paper-based documents. Both Impact.MD ™ and TouchScript® can be starting points for medical groups to seamlessly transition over time to a complete EHR.

We plan to release another clinical solution product in the second quarter of 2005 called TouchChart™. It is a complete EHR solution designed specifically to meet the needs and workflow of small to mid-size physician practices, generally comprised of less than fifteen physicians.

In our information services segment, our key product offering is Physicians Interactive ™ ("PI"). PI is a clinical education and information solution that links physicians with pharmaceutical companies and medical product suppliers using interactive education sessions to provide clinical product information to the physician. With the introduction of our Patients Interactive™ solution in February 2005, we now provide a clinical education and information solution that connects physicians to their patients through on-line, medication adherence and disease management programs. Patients Interactive ™ is a solution used to educate patients about their condition and provides various on-line and off-line tools to improve patient outcomes and therapy adherence. As a result of our acquisition in August 2003 of certain assets and assumed liabilities of RxCentric Inc. ("RxCentric"), a provider of technology-enabled sales and marketing solutions for the pharmaceutical industry, we have expanded our client base in the United States and have better access to the international market for our clinical and educational solutions. The RxCentric business has been fully integrated into our information services segment.

Finally, our prepackaged medications segment is comprised of our Medications Services Group ("MSG"), formerly known as Allscripts Direct ™. This group provides point-of-care medication management and medical supply solutions for physicians and other healthcare providers.

Clinical Solutions Group: TouchWorks™, TouchChart™, TouchScript® and Impact.MD™

Through our own internal efforts and acquisitions, we have developed and offer a variety of point-of-care solutions that enable physicians to provide higher quality healthcare and deliver it more cost effectively. Our award-winning, TouchWorks™ EHR solution has garnered industry accolades and honors. It is a full EHR

that integrates technology into the entire care process. TouchWorks™ uses wireless handheld devices, Tablet PCs or desktop workstations to automate the most common physician activities, including prescribing, dictating, document scanning, capturing charges, ordering lab tests and viewing results, providing patient education, and documenting clinical encounters. It has the functionality to handle the complexities of large physician practices. The TouchWorks ™ modules are combined with a comprehensive tasking tool that helps physicians organize their practice flow.

Modules of the TouchWorks™ suite include the following:

Products/Modules	Description	Features
Base	Clinical automation, work-flow integration and clinical data repository	Clinical database, patient schedule, call processing and task lists for the physicians and their support teams
Charge	Automated encounter form	Point-of-care charge capture tool, LMRP and CCI review
Dictate	Electronic dictation capture	Digital voice capture, on-line tracking capabilities
Document	Electronic document management	Electronic review and signature, viewing and printing capabilities
Rx+	Medication management and prescription communication for ambulatory patients	Drug utilization review and plan-specific formulary checking, faxing, script standard pharmacy and mail order connectivity
Result	Display of clinical results	Online result retrieval, documentation of findings, flowsheets and graphs
Scan	Electronic document imaging	Enables a practice to maintain a completely paperless patient record by scanning paper documents into a chart
Order	Ordering of diagnostic tests, supplies and other items for ambulatory patients	Online ordering, medical necessity checking, problem list management, order-triggered tasking
Note	Structured clinical note creation and editing	Full note creation and management, structured templates, dictation markers, integrated E/M calculator, clinical content library
iHealth	Personal health records, secure email, and online patient education	Patient-facing online services that offers patients their own personal health record service, online treatment adherence programs, and secure email and online consultation
Pocket Library	Electronic clinical reference	Access to multiple on-line titles, colorful and clear illustrations, patient education features, framework to add content easily

Our TouchChart™ clinical solution, which will be released in second quarter of 2005, is designed for small to mid-size physician practices, generally comprised of less than fifteen physicians. It is a complete EHR solution that simplifies workflow and moves a healthcare organization toward paperless efficiency, while leveraging the physician's investment in the existing practice management system. With its modular approach, the medical practice can add electronic prescribing, a point-of-care template driven note, electronic scanning and imaging,

and other functionality when the medical practice is ready to take the next step in automation. TouchChart ™ can be used on wireless devices enabling users to view patient information throughout the office, the hospital, and in satellite locations.

TouchScript® is an e-prescribing solution that helps physicians increase patient safety, reduce pharmacy callbacks and improve office efficiency during the prescribing process. The solution is available on wireless Pocket PC's, desktop, laptop, or Tablet computers and allows physicians to access TouchScript® securely via the Internet to quickly prescribe, check for drug interactions, access medication histories, review drug reference information, and send prescriptions directly to a pharmacy safely and securely.

Through our acquisition of Advanced Imaging Concepts, Inc. ("AIC") in August 2003, we now provide an electronic document imaging and scanning solution called Impact.MD™. Impact.MD™ provides an electronic repository for all patient record information including patient charts, office notes, lab results, EOBs, and referral letters among other paper based documents. Impact.MD ™ provides remote access from multiple locations, simultaneous user access, electronic annotations and signatures, desktop faxing capability, portability and mobility with wireless tablet PC implementation. Both Impact.MD ™ and TouchScript® can be starting points for medical groups to seamlessly transition over time to a complete EHR.

We believe that the best way to improve the care management process is by focusing on and automating the most labor intensive, time consuming aspects of care delivery. Our clinical software is available on a variety of platforms that offer mobility, flexibility, and real-time connectivity, enabling us to provide an attractive set of benefits to our customers:

- **Ease of Adoption.** Using a modular approach with TouchWorks™ or TouchChart™, our physician customers can start with one or a few modules before implementing the entire EHR. This strategy enables physicians to gain a level of confidence with initial modules, adding more functionality at their own pace, ultimately progressing to a full EHR. We believe that such ease of adoption leads to greater physician utilization and contributes to the success of our solutions.
- **Ease of Use.** We have designed our clinical software solutions to be easy to use. Our clinical solutions enable a physician to rapidly complete such tasks as writing a prescription, dictating a note, scanning a document or documenting a charge depending upon the solution. Additionally, TouchWorks™ and TouchChart™ help the physician automatically document the patient encounter and the activities that occur during the patient visit, increasing accuracy while improving efficiency.
- **Accessibility.** Physicians can instantly access our clinical solutions from a variety of locations, including the exam room, hospital, office or home. With TouchWorks™, one can perform such important tasks as dictation and charge capturing in an offline mode and immediately transfer those files once reconnected to the network. Our solutions run on tablet PCs, desktop workstations and other wireless devices.
- **Connectivity.** Our clinical solutions provide valuable, objective information prior to, during and after the care process, enabling physicians to provide higher quality care and do so more cost effectively.
- **Return on Investment.** Our clinical software streamlines complicated and cumbersome paper-based processes, which improves office efficiency, reduces overall costs, and provides physicians with a significant financial opportunity.

Competitive Advantage

We believe that we have several advantages over our current and potential competitors:

- **Breadth of Product Offering.** Our suite of clinical software solutions includes electronic prescribing, document scanning, dictating, capturing charges, ordering lab tests and viewing results, providing patient education, and documenting clinical encounters, encompassing virtually all of the most common functions performed by a physician at the point of care. Each year, Allscripts continues to lead the industry in providing the necessary innovation that helps to deliver on the promise of quality healthcare.

- **Modularity.** The ability to implement individual modules of our product enables physicians to start with the tools that solve their most pressing needs and provide opportunity for a measurable return on investment. This ability also results in increased physician utilization and offers clients additional payment schedule alternatives.
- **Paperless Innovation.** Our document imaging and scanning solutions allow even the largest organizations to go completely paperless and provides Optical Character Recognition ("OCR") technology to rapidly search for non-clinical documentation in seconds.
- **Deployment Performance.** Leveraging a Six Sigma approach, we have radically decreased the amount of time it takes to implement an EHR. Utilizing our "3D implementation strategy", we have been able to bring a practice of 100 physicians live in less than 30 days, demonstrating that EHRs can be implemented rapidly and effectively, even in very large practices.
- **Wireless Leaders.** Using wireless handheld devices or desktop workstations, TouchWorks™ provided the first wireless platform that automated all of the most common physician activities including prescribing, capturing charges, dictating, ordering labs and viewing results, providing patient education, and taking clinical notes.
- **Award-Winning Solutions.** Our clinical software solutions have garnered industry accolades and honors from various institutions. In 2004, a survey by KLAS Enterprises, LLC, a research and consulting firm specializing in monitoring and reporting the performance of healthcare's information technology vendors, named TouchWorks™ as the top EHR solution on the market. We have also won awards at the TEPR (Towards an Electronic Patient Record) Conference for the last three consecutive years related to our TouchWorks™ and Impact.MD™ solutions.
- **Installed Base.** Over 140 physician practices, representing over 1,000 clinics, have purchased TouchWorks™, including some of the country's most prestigious medical groups.
- **Return on Investment.** Based on increases in productivity, quality of care improvement, and greater practice revenue opportunities, customers have documented positive financial returns related to implementing our clinical software.
- **Strategic Alliance with IDX Systems.** Pursuant to a strategic alliance agreement with IDX Systems Corporation ("IDX"), we are the exclusive partner for providing ambulatory, point-of-care clinical applications for IDX's installed base of medium to large physician practices nationwide, representing over 138,000 potential physician prospects for TouchWorks™. The agreement with IDX runs through January 2011 and includes integration of our clinical applications into IDX practice management systems and joint product development.

Competition

Our industry is intensely competitive, rapidly evolving and subject to rapid technological change. A number of the companies that offer products or services that compete with one or more of our CSG products or services have greater financial, technical, product development, marketing and other resources than we have. These organizations may be better known and may have more customers than we have. We may be unable to compete successfully against these organizations. We believe that we must gain significant market share with our products and services before our competitors introduce alternative products and services with features similar to ours.

We believe that while there are many companies that provide clinical applications for physicians, there is limited direct competition in providing comprehensive EHR solutions to physician practices that are easy to use, scalable, accessible anywhere and anytime, and deliver information and financial opportunity for physicians comparable to ours. However, several organizations offer components that overlap with certain components of our solutions and may become increasingly competitive with us in the future.

In this segment of our business, we face competition from several types of organizations, including the following:

- physician practice management systems suppliers;

- ambulatory EHR providers;
- acute EHR providers; and
- enterprise-wide application providers.

While many of these types of organizations are potential competitors, we believe that there are opportunities to establish strategic relationships, alliances, or distribution agreements with some of them. In addition, we expect that major software information systems companies and others specializing in the healthcare industry may offer products or services that are competitive with components of our solutions.

Physicians Interactive™ and Patients Interactive™

Pharmaceutical companies are introducing new therapies at an ever increasing rate. Busy physicians often do not have time to read journals or visit with pharmaceutical representatives to fully educate themselves on the new therapies that could potentially benefit their patients. We believe that PI addresses the educational needs of physicians that exist in this environment.

PI's online suite of integrated clinical education programs, often referred to as e-Detailing, links physicians with pharmaceutical companies, medical product suppliers, and health plans, using interactive educational sessions to provide clinical product information and education. Available anytime and anywhere a physician has access to the Internet, each program takes advantage of PI's physician relationships, experience, and proprietary process to deliver effective and physician-trusted programs. Our pharmaceutical company, medical device and managed care clients use PI programs to provide physicians with valuable and up-to-date information about various medications and medical products, as well as to collect market research feedback from physician opinion leaders and other experts.

To date, we believe that PI has launched and completed more interactive sessions than all other competitors combined. PI's current client list includes eight of the world's ten largest pharmaceutical companies, nearly all of which have launched several PI online programs. We have completed over 450 programs to nearly every physician specialty. We have launched over 80 programs in eleven international markets. In August 2003, we acquired certain assets of RxCentric, a provider of technology-enabled sales and marketing solutions for the pharmaceutical industry. This acquisition has been fully integrated into our PI business and has expanded our client base in the United States and provided access to the international market.

In August 2004, we made an investment in Medem, Inc. ("Medem"), the nation's premier physician-patient communications network, founded and governed by the American Medical Association and other leading medical societies. Through this strategic partnership, we have better reach for our PI product education offerings with access to an additional 90,000 physicians. In addition, the partnership provides the technology and resources for our development of patient adherence programs, including our newly announced offering, Patients Interactive ™, which is a physician-directed, interactive care management program for patients that drives a better understanding and compliance to therapy. Our Patients Interactive ™ solution has been integrated with our CSG TouchWorks™ product through its iHealth function, which provides patients secure online access to their own personal health record.

Competitive Advantage

We believe that we have several advantages over our current and potential competitors:

- **Experience.** We have completed over 450 programs, providing us with the expertise to produce programs that meet the strategic and tactical marketing objectives of our clients.
- **Relationships.** We have a physician-trusted service with access to over 500,000 physicians anytime. We also benefit from a large network of recruiting partners.
- **Results.** PI consistently delivers the hard and soft data results our clients are seeking.

Our PI product offerings include:

Product	Description
PI e-Detailing™	Interactive web-based promotional and educational program targeted at physicians and other healthcare professionals to promote a client's pharmaceutical product and educate participants on disease states.
PI OpinionLeader™	Interactive web-based program targeted at physician advocates and key opinion leaders to collect advice and opinions on pharmaceutical products/marketing messages and to educate and equip national, regional and local speakers.
PI Survey™	Interactive web-based market research program targeted at physicians and other healthcare professionals soliciting their opinions and feedback on pharmaceutical products, medical devices and disease states.
PI Convention™	Interactive solution for the physician convention and conference setting offering a live, one-on-one interaction between a pharmaceutical sales representative and physician.
Patients Interactive™	Physician-directed interactive care management program for patients, which leverages our TouchWorks™ footprint, as well as the Medem network of physicians, to bring patients an interactive program that drives better understanding and compliance to therapy.

Competition

Our industry is intensely competitive, rapidly evolving and subject to rapid technological change. We are seeing competition from larger companies leveraging their physician databases while attempting to compete with our PI business.

In this segment of our business, we face competition from several types of organizations, including the following:

- clinical information and education providers, such as disease state management companies.
- full service e-marketing companies;
- companies who provide e-Detailing software; and
- the in-house efforts of our clients, including health plans, pharmacy benefit managers ("PBMs"), and pharmaceutical companies.

Medications Solutions Group

Our MSG, formerly known as Allscripts Direct™, is a provider of point-of-care medication management solutions. It has over 15,000 physician customers nationwide and provides physician groups, urgent care clinics, and occupational health centers the ability to provide medications at the point of care. We believe that our MSG's medication repackaging services increase safety, compliance, and confidentiality while strengthening the physician's relationship with his or her patient, which can become a competitive advantage over time. MSG can also provide an additional revenue stream for physicians who process fee-for-service and online insurance claims for their patients.

Competition

Competitors of our MSG include other medication repackaging companies and bulk pharmaceutical distributors.

Backlog

At December 31, 2004 and 2003, our backlog for our software and related services segment and information services segment totaled approximately $67 million and $46 million, respectively. Approximately $30 million to

$35 million of the 2004 backlog is not expected to be realized during 2005. Our backlog information excludes our prepackaged medications segment due to the short term nature of a prepackaged medication order.

Employees

As of January 31, 2005, we employed 348 persons on a full-time basis, including 112 in customer service and support, 75 in sales and marketing, 30 in production and warehousing, 60 in product development and 71 in general and administrative. None of our employees are a member of a labor union or are covered by a collective bargaining agreement. We believe we have good relations with our employees.

Available Information

Our website address is www.allscripts.com. Information on our website is not incorporated by reference herein. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, as well as Section 16 reports filed by our insiders, are available free of charge on our website as soon as reasonably practicable after we file the reports with, or furnish the reports to, the Securities and Exchange Commission.

Item 2. Properties

Our corporate headquarters is located in downtown Chicago, consists of approximately 13,000 square feet and includes corporate administration, finance, education, and some sales and marketing personnel. The corporate headquarters lease expires in December 2014.

Our repackaging and operating facilities are located in Libertyville, Illinois, in approximately 62,000 square feet of space under a lease that expires in June 2009. We lease an additional 4,000 square feet of space of repackaging facilities in Grayslake, Illinois, under a lease that expires in June 2007. We also maintain offices for sales, marketing, operations and development efforts in Louisville, Kentucky, with approximately 8,400 square feet under a lease that expires in December 2005; in Port Townsend, Washington, with approximately 2,900 square feet under a lease that expires in March 2005; and in Burlington, Vermont, with approximately 15,000 square feet under a lease that expires in January 2006. We believe that our facilities are adequate for our current operations.

Item 3. Legal Proceedings

We are a defendant in various multi-defendant lawsuits involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine. The majority of these suits were filed in state courts in Texas beginning in August 1999. The plaintiffs in these cases claim injury as a result of ingesting a combination of these weight-loss drugs. In each of these suits, Allscripts is one of many defendants, including manufacturers and other distributors of these drugs. Allscripts does not believe it has any significant liability incident to the distribution or repackaging of these drugs, and it has tendered defense of these lawsuits to its insurance carrier for handling. In addition, Allscripts has been indemnified by the primary manufacturer of the drugs at issue in these cases. Allscripts believes that it is unlikely that it is responsible for the distribution of the drugs at issue in many of these cases. The lawsuits are in various stages of litigation, and it is too early to determine what, if any, liability Allscripts will have with respect to the claims made in these lawsuits. If Allscripts' insurance coverage and its indemnity from the drug manufacturer is inadequate to satisfy any resulting liability, Allscripts will have to defend these lawsuits and be responsible for the damages, if any, that Allscripts suffers as a result of these lawsuits. Allscripts does not believe that the outcome of these lawsuits will have a material adverse effect on its financial condition, results of operations or cash flows.

In addition, we are involved in litigation incidental to our business from time to time. We are not currently involved in any litigation in which we believe an adverse outcome would have a material adverse effect on our business, financial condition, results of operations or prospects.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

(Dollar amounts in thousands, except per share amounts)

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Public Market for Common Stock

Our common stock is quoted on the Nasdaq National Market under the symbol "MDRX." The following table sets forth, for the periods indicated, the high and low closing prices per share of the common stock of Allscripts Healthcare Solutions, Inc. for the applicable periods as reported on the Nasdaq National Market.

	High	Low
Year Ended December 31, 2003		
First Quarter	$2.75	$ 1.94
Second Quarter	$4.49	$ 2.40
Third Quarter	$5.18	$ 2.77
Fourth Quarter	$5.98	$ 3.94
Year Ended December 31, 2004		
First Quarter	$9.99	$ 5.26
Second Quarter	$11.05	$ 7.50
Third Quarter	$9.00	$ 5.50
Fourth Quarter	$10.67	$ 8.64

Information regarding Allscripts' equity compensation plans is incorporated by reference to Item 12 of this Form 10-K, which incorporates by reference the information set forth in the section entitled "Equity Compensation Plan Information" in Allscripts' proxy statement to be filed pursuant to Regulation 14A within 120 days of Allscripts' fiscal year end.

On January 31, 2005, we had 407 holders of record of common stock. We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

In July 2004, we completed a private placement of $82,500 of 3.50% Senior Convertible Debentures due 2024 ("Notes"). We received approximately $79,612 in net proceeds from the offering after deduction for underwriting fees and professional expenses. We used approximately $11,250 of the net proceeds to repurchase approximately 1,399 shares of our common stock, which will be held in treasury, and will use the remaining net proceeds for general corporate purposes, which may include future additional share repurchases, acquisitions or other strategic investments.

Item 6. Selected Financial Data

You should read the selected consolidated financial data shown below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report. The consolidated statements of operations data for the year-ended December 31, 2004 and the consolidated balance sheet data at December 31, 2004 are derived from the consolidated financial statements audited by Grant Thornton LLP that are included elsewhere in this report. The consolidated statements of operations data for the two years ended December 31, 2003 and the consolidated balance sheet data at December 31, 2003 are derived from the consolidated financial statements audited by KPMG LLP that are included elsewhere in this report. The consolidated statements of operations data for the years ended December 31, 2001 and 2000 and the balance sheet data at December 31, 2002, 2001, and 2000 are derived from audited financial statements that are not included in this report. The historical results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,				
	2004	2003[1]	2002[3]	2001[2][3]	2000
	(In thousands, except per-share data)				
Consolidated Statements of Operations Data:					
Revenue	$100,770	$85,841	$78,802	$70,917	$54,983
Cost of revenue	58,122	55,169	58,931	64,083	42,518
Restructuring and other charges	—	—	—	2,201	—
Gross profit	42,648	30,672	19,871	4,633	12,465
Operating expenses:					
Selling, general and administrative expenses	37,653	36,058	36,412	57,908	43,183
Amortization of intangibles	1,752	951	540	55,095	24,062
Asset impairment charge	—	—	—	354,984	—
Restructuring and other charges	—	—	600	6,435	—
Write-off of acquired in-process research and development	—	—	—	3,000	13,729
Income (loss) from operations	3,243	(6,337)	(17,681)	(472,789)	(68,509)
Interest income	1,675	1,384	2,406	5,055	7,877
Interest expense	(1,717)	—	—	—	—
Other income (expense), net	(93)	(26)	42	259	(1,171)
Income (loss) from continuing operations before income taxes	3,108	(4,979)	(15,233)	(467,475)	(61,803)
Income tax benefit	—	—	—	48,544	—
Income (loss) from continuing operations	3,108	(4,979)	(15,233)	(418,931)	(61,803)
Income from discontinued operations	—	—	—	—	83
Gain from sale of discontinued operations	—	—	—	—	4,353
Net income (loss)	$3,108	($4,979)	($15,233)	($418,931)	($57,367)
Basic net income (loss) from continuing operations per share	$0.08	($0.13)	($0.40)	($11.07)	($2.22)
Diluted net income (loss) from continuing operations per share	$0.07	($0.13)	($0.40)	($11.07)	($2.22)
Weighted-average shares used in computing basic net income (loss) per share	38,979	38,621	38,337	37,835	27,900
Weighted-average shares used in computing diluted net income (loss) per share	41,592	38,621	38,337	37,835	27,900
Other Operating Data:					
Prepackaged medication revenue	$44,733	$46,172	$49,298	$49,672	$41,567
Software and related services revenue	44,121	28,366	19,921	17,093	8,424
Information services revenue	11,916	11,303	9,583	4,152	4,992
Total revenue	$100,770	$85,841	$78,802	$70,917	$54,983

	As of December 31,				
	2004	2003	2002	2001	2000
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$128,239	$51,309	$65,286	$78,290	$119,837
Working capital	34,914	17,392	44,426	46,361	105,114
Goodwill and intangible assets, net	24,546	26,359	4,793	5,516	149,690
Total assets	194,177	110,392	104,353	117,444	305,420
Long-term debt	82,500	—	—	—	—
Total stockholders' equity	78,693	83,390	85,821	98,634	290,975

(1) On August 1, 2003, Allscripts acquired 100% of the outstanding common stock of AIC. On August 8, 2003, Allscripts acquired certain assets and assumed certain liabilities of RxCentric (See Note 3 to the Consolidated Financial Statements).

(2) On January 8, 2001, Allscripts acquired ChannelHealth, Inc. ("ChannelHealth"), a business unit of IDX. In addition to the acquisition, Allscripts and IDX entered into a 10-year strategic alliance whereby Allscripts became the exclusive provider of internet and point-of-care clinical applications sold by IDX to physician practices.

(3) In July 2001, Allscripts announced and began implementation of a restructuring plan to realign its organization, prioritize its initiatives around high-growth areas of its business, focus on profitability, reduce operating expenses, and focus sales and service efforts on larger physician practices, academic medical centers, and integrated delivery networks. During 2001, Allscripts recorded charges of $1,053 related to the termination of certain agreements and non-cancelable leases, $4,266 related to the termination of unprofitable customer contracts, and $3,317 related to severance and related benefits for workforce reduction. During 2002, Allscripts recorded $414 for severance costs in connection with the departure of the former chief financial officer and an additional charge of $186 for remaining workforce reductions.

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

(Dollar amounts in thousands, except per-share amounts)

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

Overview

Allscripts Healthcare Solutions, Inc. is a provider of clinical software, connectivity and information solutions that physicians use to improve healthcare. Our business groups provide unique solutions that inform physicians, delivering just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare by improving both the quality and efficiency of care. Our CSG software applications include EHR, e-prescribing and document imaging solutions. Additionally, we provide healthcare product education and connectivity solutions for physicians and patients through its Physicians Interactive Group and medication fulfillment services through our Medication Services Group.

We report our financial results utilizing three business segments: software and related services segment, information services segment, and prepackaged medications segment. The software and related services segment consists of clinical software solutions offered by our Clinical Solutions Group, such as TouchWorks™, TouchScript® and Impact.MD™. 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. It has the functionality to handle the complexities of large physician practices. TouchScript® is an e-prescribing solution that physicians can access securely via the Internet to quickly, safely and securely prescribe, check for drug interactions, access medication histories, review drug reference information, and send prescriptions directly to a pharmacy. Impact.MD™ is an electronic document imaging and scanning solution that serves as a repository for automated patient charts, office notes, lab results, EOBs and referral letters among other paper-based documents. Both Impact.MD ™ and TouchScript® can be starting points for medical groups to seamlessly transition over time to a complete EHR.

We plan to release another clinical solution product in the second quarter of 2005. The new product is called TouchChart ™ and bridges the gap in our existing CSG product offerings. It is a complete EHR solution designed specifically to meet the needs and workflow of small to mid-size physician practices, generally comprised of less than fifteen physicians.

In our information services segment, our key product offering is Physicians Interactive™. PI is a clinical education and information solution that links physicians with pharmaceutical companies and medical product suppliers using interactive education sessions to provide clinical product information to the physician. With the introduction of our Patients Interactive™ solution in February 2005, we now provide a clinical education and information solution that connects physicians to their patients through on-line, medication adherence and disease management programs. Patients Interactive ™ is a solution used to educate patients about their condition and provides various on-line and off-line tools to improve patient outcomes and therapy adherence. As a result of our acquisition in August 2003 of certain assets and assumed liabilities of RxCentric, a provider of technology-enabled sales and marketing solutions for the pharmaceutical industry, we have expanded our client base in the United States and have better access to the international market for our clinical and educational solutions. The RxCentric business has been fully integrated into our information services segment.

Finally, our prepackaged medications segment is comprised of our Medications Services Group, formerly known as Allscripts Direct ™. This group provides point-of-care medication management and medical supply solutions for physicians and other healthcare providers.

The composition of our revenue by segment is as follows:

	Quarter Ended							
	2004				2003			
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
	(Unaudited)							
Prepackaged medications	$9,342	$11,811	$12,396	$11,184	$11,894	$10,990	$11,170	$12,118
Software and related services	14,306	10,986	9,934	8,895	8,318	8,232	6,020	5,796
Information services	2,665	2,897	3,278	3,076	3,441	3,266	2,480	2,116
Total revenue	$26,313	$25,694	$25,608	$23,155	$23,653	$22,488	$19,670	$20,030

Cost of revenue for the prepackaged medication segment consists primarily of the cost of the medications, the salaries, bonuses and benefits for the repackaging personnel, shipping costs, repackaging facility costs and other costs. Cost of revenue for the software and related services segment consists primarily of the salaries, bonuses and benefits of our billable professionals, third party software costs, hardware costs, capitalized software amortization and other direct engagement costs. Cost of revenue for the information services segment consists primarily of salaries, bonuses and benefits of our program management and program development personnel, 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 and amortization, general operating expenses, non-capitalizable product development expenses, and selling and marketing expenses. Selling, general and administrative expenses for each segment consist of expenses directly related to that segment.

Critical Accounting Policies and Estimates

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

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition

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

Certain of our customer arrangements in our software and services segment and information services segment encompass multiple deliverables. We account 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 are 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 us to adjust upward or downward the amount of revenue recognized under the arrangement. The adoption of EITF 00-21 during the second half of 2003 did not have a significant effect on our revenue recognition due to the methodology utilized prior to EITF 00-21 having very similar accounting treatment for multiple deliverables.

For a more complete description of our revenue recognition policy, please refer to Note 2 of the Notes to Consolidated Financial Statements.

Allowance for Doubtful Accounts Receivable

We rely on estimates to determine our bad debt expense and the adequacy of our allowance for doubtful accounts. These estimates are based on our historical experience and the industry in which we operate. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances and related bad debt expense may be required.

Inventories

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

Investment in Promissory Note and Minority Interest

Allscripts holds an investment in Medem totaling $1,550 as of December 31, 2004. The investment has been accounted for under the cost basis of accounting and is recorded in other assets in the consolidated balance sheet. The investment consists of a $1,050 note receivable from and a $500 minority interest in Medem. The fair value of the investment is dependent upon the actual financial performance of Medem, its market value, and the volatility inherent in the external markets for this type of investment. In assessing potential impairment of the investment, we consider these factors, as well as the forecasted financial performance of Medem, liquidation preference value of the stock that we hold, and estimated potential for investment recovery. If any of these factors indicate that the investment has become other-than-temporarily impaired, we may have to record an impairment charge. During the year ended December 31, 2004, we performed an impairment test of the investment in Medem and determined that it was not impaired.

Goodwill and Intangible Assets

We evaluate the value of intangible assets based upon the present value of the future economic benefits expected to be derived from the assets. We assess the impairment of the identifiable intangibles and goodwill

annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If we determine that the value of the intangible assets and goodwill may not be recoverable from future cash flows, a write-down of the value of the asset may be required.

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

Software Capitalization

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

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

Results of Operations

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

	Year Ended December 31,		
	2004	2003	2002
Revenue	100.0%	100.0%	100.0%
Cost of revenue	57.7	64.3	74.8
Gross profit	42.3	35.7	25.2
Operating expenses:			
Selling, general and administrative expenses	37.4	42.0	46.2
Amortization of intangibles	1.7	1.1	0.7
Restructuring and other charges	—	—	0.7
Income (loss) from operations	3.2	(7.4)	(22.4)
Interest income	1.7	1.6	3.0
Interest expense	(1.7)	—	—
Other income (expense), net	(0.1)	—	0.1
Income (loss) from operations before income taxes	3.1	(5.8)	(19.3)
Provision for income taxes	—	—	—
Net income (loss)	3.1%	(5.8)%	(19.3)%

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Prepackaged Medications

Prepackaged medications revenue for the year ended December 31, 2004 decreased by 3.1%, or $1,439, from $46,172 in 2003 to $44,733 in 2004. The decrease in revenue is due to a change in product mix from more expensive brand medications to generic brand medications as a result of new generic vendor product offerings for 2004. It also is attributable to a decrease in the overall customer base as a result of competitive factors and trends experienced in the repackaging marketplace, as well as the impact of the Vioxx recall announced on September 30, 2004, which negatively affected revenue by approximately $716 in 2004. This decrease in revenue was offset by an increase in revenue to wholesale customers from $3,114 in 2003 to $7,751 in 2004.

Gross profit for the prepackaged medications segment for the year ended December 31, 2004 decreased by 8.9%, or $880, from $9,869 in 2003 to $8,989 in 2004. Gross profit as a percentage of revenue decreased to 20.1% in 2004 from 21.4% in 2003. The decrease in gross profit and gross profit as a percentage of revenue in 2004 is due primarily to a change in the mix of revenue, reflecting an increase in bulk sales to wholesale customers, which have a significantly lower gross margin than sales of prepackaged medications to our traditional physician customers. Gross profit for prepackaged medications excluding bulk sales to wholesale customers as a percentage of revenue was 23.7% and 22.7% for the year ended December 31, 2004 and 2003, respectively.

Operating expenses for prepackaged medications for the year ended December 31, 2004 decreased by $111, or 6.1%, from $1,825 in 2003 to $1,714 in 2004. This decrease was primarily due to a reduction in headcount in the sales and services department.

Software and Related Services

Software and related services revenue for the year ended December 31, 2004 increased 55.5%, or $15,755, from $28,366 in 2003 to $44,121 in 2004. The increase reflects the implementation of our integrated content and clinical solution products to new customers during 2004, as well as the add-on of additional software and services to our existing customers. The increase in revenue is also reflective of an increase in the average contract size for our EHR solutions during 2004 and due to a full year of revenue in 2004 from AIC, which we acquired in August 2003.

Gross profit for software and related services for the year ended December 31, 2004 increased 97.4%, or $13,947, from $14,316 in 2003 to $28,263 in 2004. Gross profit as a percentage of revenue increased to 64.1% in 2004 from 50.5% in 2003. The improvement in both gross profit and gross profit as a percentage of revenue in 2004 resulted from the overall increase in revenue in 2004, the full year effect of AIC's results of operations in 2004, combined with our ongoing concentrated efforts to reduce our costs of implementation, training, and support. These improvements in gross profit and gross profit as a percentage of revenue were partially offset by an increase in the amortization of capitalized software.

Operating expenses for software and related services for the year ended December 31, 2004 increased 11.1%, or $1,964, from $17,666 in 2003 to $19,630 in 2004. The increase in operating expenses in 2004 was primarily the result of having AIC reflected in operations for the full year. The increase was offset by an increase in capitalized development costs. All development costs are capitalized pursuant to Statement of Financial Accounting Standards (FAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." In 2004 and 2003, we capitalized development costs of $3,949 and $2,400, respectively.

Information Services

Information services revenue for the year ended December 31, 2004 increased by 5.4%, or $613, from $11,303 in 2003 to $11,916 in 2004. The increase in information services revenue was primarily due to an increase in the number of e-detailing programs completed on a year-over-year basis, an increase in transaction revenue, and the revenue contribution of RxCentric, which was acquired in August 2003. Such increases were partially offset by pricing discounts that were given to our large domestic pharmaceutical customers and by a challenging sales environment, resulting from issues raised in 2003 by the Office of Inspector General ("OIG") regarding physician marketing activities by pharmaceutical manufacturers.

Gross profit for the information services segment for the year ended December 31, 2004 decreased by 16.8%, or $1,091, from $6,487 in 2003 to $5,396 in 2004. Gross profit as a percentage of revenue decreased to 45.3% in 2004 from 57.4% in 2003. The decrease in both gross profit and gross profit as a percentage of revenue is the result of a challenging sales environment as discussed above and a change in product mix as a result of the acquisition of RxCentric, whose products have a lower margin than the historical PI business contracts. In

addition, the adoption of EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" resulted in a decrease in gross profit and gross profit as a percentage of revenue due to transitional timing differences on the recognition of revenue for 2004 compared to 2003 when EITF No. 00-21 was not effective.

Operating expenses for information services for the year ended December 31, 2004 were $3,142, compared to $2,977 in 2003. The $165, or 5.5% increase was primarily due to the addition of operating expenses from our RxCentric acquisition.

Corporate

Unallocated corporate expenses were $14,919 and $14,541 for the year ended December 31, 2004 and 2003, respectively. The $378, or 2.6% increase was due primarily to an increase in intangible amortization expense of $801 in 2004 when compared to 2003 due to the AIC and RxCentric acquisitions and an increase in overall corporate salary expense due to an increase in headcount. These additional costs of 2004 were partially offset by a decrease in depreciation expense as a result of fixed assets that became fully depreciated in 2004 and due to a decrease in the expense recorded for sales and use tax considerations in 2004 compared to 2003.

Interest income

Interest income for the year ended December 31, 2004 increased $291, or 21.0%, from $1,384 in 2003 to $1,675 in 2004. The increase is primarily related to interest income earned on the net proceeds received from the issuance of our Notes completed in July 2004. Total net proceeds of $79,612 were offset by $11,250, which we used to repurchase approximately 1,399 shares of our common stock.

Interest expense

We incurred $1,717 of interest expense for the year ended December 31, 2004 primarily related to the issuance of our Notes in July 2004. In connection with the issuance, we incurred $2,888 of debt issuance costs. The interest expense for 2004 includes amortization expense on the debt issuance costs of $313. We did not incur any interest expense or amortization of debt issuance costs in 2003 and 2002.

Income taxes

No tax provision or tax benefit for income taxes was recorded for the year ended December 31, 2004 or 2003 due to the fact that any current year income tax liability would be offset with the net operating loss carryforward, which results from prior year losses.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Prepackaged Medications

Prepackaged medications revenue for the year ended December 31, 2003 decreased by 6.3%, or $3,126, from $49,298 in 2002 to $46,172 in 2003. The decrease reflects a reduction in the volume of prepackaged medications sold related to the termination of several less profitable customer relationships, the bankruptcy of a large customer during the first quarter of 2003, and lower revenue from occupational health customers, which tend to be more sensitive to general economic trends. This decrease in volume during 2003 was partially offset by pricing increases in both brand and generic prepackaged medications due to inflationary factors.

Gross profit for prepackaged medications for the year ended December 31, 2003 increased by 6.7%, or $615, from $9,254 in 2002 to $9,869 in 2003. Gross profit as a percentage of revenue increased to 21.4% in 2003 from 18.8% in 2002. The increase for both gross profit and gross profit as a percentage of revenue during 2003 was due primarily to more favorable buying arrangements with suppliers as well as the elimination of less profitable customer relationships. During the first half of 2002, we changed our primary wholesaler/distributor and negotiated more favorable buying arrangements. Our gross profit for 2003 realized the benefits from this new supplier contract for all of 2003 compared to a partial year in 2002. This one wholesaler/distributor, accounted for approximately 84% and 75% of all inventory purchases during 2003 and 2002, respectively.

Operating expenses for prepackaged medications for the year ended December 31, 2003 increased by 9.5%, or $158, from $1,667 in 2002 to $1,825 in 2003. The increase was due primarily to wage increases for the employee base in 2003 and the addition of a new executive of operations during the second half of 2003.

Software and Related Services

Software and related services revenue for the year ended December 31, 2003 increased by 42.4%, or $8,445, from $19,921 in 2002 to $28,366 in 2003. The increase reflects the implementation of our integrated content and clinical workflow products to new customers during 2003 as well as the add-on of additional software modules to existing customers. In addition, the increase in revenue in 2003 reflected AIC revenues from electronic document imaging and scanning solutions, which was acquired in August 2003.

Gross profit for software and related services for the year ended December 31, 2003 increased by 180.0%, or $9,201, from $5,115 in 2002 to $14,316 in 2003. Gross profit as a percentage of revenue increased to 50.5% in 2003 from 25.7% in 2002. The increase in both gross profit and gross profit as a percentage of revenue resulted from the increase in revenue combined with the reduction of our costs of implementation, training, and support by realizing improved efficiencies in those processes. In addition, our acquisition of AIC and its product line contributed to the gross profit increase in 2003. These gross profit improvements were partially offset by an increase in the amortization of capitalized software and an increase in revenue sharing commissions.

Operating expenses for software and related services for the year ended December 31, 2003 increased by 6.0%, or $1,003, from $16,663 in 2002 to $17,666 in 2003. The increase in operating expenses was primarily the result of a reduction in vendor sponsorships during 2003 compared to 2002, an increase in consulting costs during 2003, and the addition of operating expenses from AIC. These increases were partially offset by lower costs as a result of workforce reductions that took place in the first half of 2002 aimed at improving efficiencies in light of acquisitions made during 2001 and 2000, and our decision to focus sales and service efforts on larger physician practices. During 2003 and 2002, development costs in the amount of $2,400 and $2,697, respectively, were capitalized pursuant to FAS No. 86, “Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed.”

Information Services

Information services revenue for the year ended December 31, 2003 increased by 18.0%, or $1,720, from $9,583 in 2002 to $11,303 in 2003. The increase in information services revenue reflects an increase in the number of interactive physician education programs sold and completed, as well as the addition of revenue from our RxCentric acquisition in August 2003. Information services revenue grew at a slower pace in 2003 compared to 2002, at 18.0% and 130.8%, respectively. The decrease in the 2003 revenue growth rate was due primarily to pricing reductions given to our large pharmaceutical customers in 2003 and due to a more difficult sales environment resulting from the issues raised in 2003 by the Office of Inspector General regarding physician marketing activities by pharmaceutical manufacturers.

Gross profit for information services for the year ended December 31, 2003 increased 17.9%, or $985, from $5,502 in 2002 to $6,487 in 2003. The increase in gross profit was due to a higher number of physician education sessions completed in 2003 as compared to 2002, and increased efficiencies in our recruiting and program development processes. Gross profit as a percentage of revenue was flat on a year-over-year basis, at 57.4% in 2003 and 2002.

Operating expenses for information services for the year ended December 31, 2003 increased by 1.0%, or $30, from $2,947 in 2002 to $2,977 in 2003. The increase was due to the addition of expenses from our RxCentric acquisition, offset by reduced marketing efforts in emerging markets.

Corporate

Unallocated corporate expenses for the year ended December 31, 2003 decreased by 10.7%, or $1,734, from $16,275 in 2002 to $14,541 in 2003. This decrease was due primarily to workforce reductions, a reduction in bad debt expense due to improved accounts receivable management, a decrease in depreciation expense as a result of fixed assets that became fully depreciated in 2003 and a decrease in state franchise fees. These decreases in

unallocated corporate expenses were partially offset by an accrual for sales and use tax considerations and an increase in intangible amortization expense due to the AIC acquisition.

Interest Income

Interest income for the year ended December 31, 2003 decreased by 42.5%, or $1,022, from $2,406 in 2002 to $1,384 in 2003. The decrease was related to lower average cash and marketable securities balances in 2003 and a decrease in the average interest rates earned on our investments during 2003. The decrease in cash and marketable securities is primarily due to $16,084 used for acquisitions during the second half of 2003.

Income Taxes

No tax provision or tax benefit for income taxes was recorded for the year ended December 31, 2003 and 2002 as we anticipated that annual income taxes payable would be minimal or zero. We provided a full valuation allowance for our net deferred tax assets.

Selected Quarterly Operating Results

The following table shows our quarterly unaudited consolidated financial information for the eight quarters ended December 31, 2004. We have prepared this information on the same basis as the annual information presented in other sections of this report. In management's opinion, this information reflects all adjustments, all of which are of a normal recurring nature, that are necessary for a fair presentation of the results for these periods. You should not rely on the operating results for any quarter to predict the results for any subsequent period or for the entire fiscal year. You should be aware of possible variances in our future quarterly results. See "Risk Factors—Risks Related to Our Stock—Our quarterly operating results may vary."

	Quarter Ended							
	2004				2003			
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
	(unaudited)							
Statements of Operations Data:								
Revenue	$26,313	$25,694	$25,608	$23,155	$23,653	$22,488	$19,670	$20,030
Cost of revenue	13,977	14,617	15,519	14,009	14,341	13,833	13,153	13,842
Gross profit	12,336	11,077	10,089	9,146	9,312	8,655	6,517	6,188
Operating expenses:								
Selling, general and administrative expenses	10,337	9,453	9,103	8,760	9,084	9,618	8,804	8,552
Amortization of intangibles	441	437	445	429	388	295	134	134
Income (loss) from operations	1,558	1,187	541	(43)	(160)	(1,258)	(2,421)	(2,498)
Interest income	802	436	220	217	241	322	388	433
Interest expense	(884)	(833)	—	—	—	—	—	—
Other income (expense), net	(73)	(48)	(65)	93	35	18	(38)	(41)
Income (loss) before income taxes	1,403	742	696	267	116	(918)	(2,071)	(2,106)
Income taxes	—	—	—	—	—	—	—	—
Net income (loss)	$1,403	$742	$696	$267	$116	($918)	($2,071)	($2,106)
Net income (loss) per share-basic	$0.04	$0.02	$0.02	$0.01	$0.00	($0.02)	($0.05)	($0.05)
Net income (loss) per share-diluted	$0.03	$0.02	$0.02	$0.01	$0.00	($0.02)	($0.05)	($0.05)

Our quarterly gross profits improved during 2004 compared to 2003 primarily due to the growth in our higher margin software and related services revenue combined with the reduction of related costs of implementation, training, and support as a percentage of revenue. The gross margin improvements during 2004 were partially offset by an increase in the quarterly amortization of capitalized software in 2004 compared to 2003. In addition, the acquisition of AIC during August 2003 had a favorable impact on our gross margin for the second half of 2003 and all of 2004. The acquisition also had a favorable impact on our selling, general and administrative expenses as a percentage of revenue. We incurred interest expense in the second half of 2004, due to the issuance of the Notes. The proceeds from the Notes also attributed to the increase in interest income and interest expense in the second half of 2004.

Liquidity and Capital Resources

At December 31, 2004 and 2003, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of $128,239 and $51,309, respectively. This net increase of $76,930 reflects the net proceeds of $79,612 received in our Notes offering, net cash generated from operations of $12,447 and cash proceeds received from the exercise of stock options of $4,136, partially offset by capitalized software and website development costs of $3,962, capital expenditures of $1,623, investment in a promissory note receivable from, and minority interest in, Medem, Inc. of $1,550 and $11,250 that was used to repurchase approximately 1,399 shares of our common stock in conjunction with our Notes issuance.

Our working capital increased by $17,522 during 2004 from $17,392 at December 31, 2003 to $34,914 as of December 31, 2004. The increase in working capital is due primarily to the net increase in our cash, cash equivalents and marketable securities for the year 2004. At December 31, 2004, we had an accumulated deficit of $555,410.

Operating Activities

Net cash provided by operating activities was $12,447 for the year ended December 31, 2004, which was primarily due to our net income of $3,108 generated during 2004, net income to cash reconciling items for depreciation and amortization of $4,972 and bad debt expense of $451, improvement in inventory levels totaling $877, a reduction in cash used for prepaid expenses and other assets of $741, and a net increase of $2,777 in accrued expenses and other liabilities.

Investing Activities

Net cash used in investing activities was $81,237 for the year ended December 31, 2004, which primarily consisted of $73,963 in net purchases of marketable securities, $3,962 in capitalized software and website development costs, the $1,550 investment in Medem, and $1,623 in capital expenditures.

Financing Activities

Net cash provided by financing activities was $72,426 for the year ended December 31, 2004, which was primarily due to the net proceeds of $79,612 received from the issuance of our Notes, and $4,136 in cash proceeds received from the exercise of stock options. These sources of cash were partially offset by $11,250 that was used to repurchase approximately 1,399 shares of our common stock in conjunction with our Notes issuance.

Future Capital Requirements

Our primary future cash needs will be to fund working capital, to service approximately $2,888 in interest payments on our Notes in 2005, capital expenditures in the range of $3,000 to $4,000 over the next twelve months, $1,050 in potential additional funding under the Medem promissory note agreement, product development, including our TouchChart™ product offering, sales and use tax considerations, and approximately $1,800 in remaining holdback payments related to our AIC acquisition.

We believe that our cash flow generated from operations in 2005 and our cash, cash equivalents, and marketable securities of $128,239 as of December 31, 2004, will be sufficient to meet the anticipated cash needs of our current business for the next twelve months. However, we cannot provide assurance that our actual cash requirements will not be greater than we currently expect. 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 2005, we might be required to obtain additional sources of funds through additional operating improvements, capital market transactions, asset sales or financing from third parties, or a combination thereof. 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 at December 31, 2004 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 1 Year	1 to 3 Years	3 to 5 Years	Beyond 5 Years
Contractual obligations:					
3.5% Notes	$82,500	$—	$—	$—	$82,500
Semi-annual interest due on the 3.5% Notes	57,028	2,888	5,776	5,776	42,588
Obligation under the Promissory Note Purchase Agreement	1,050	1,050	—	—	—
Non-cancelable capital leases	110	71	39	—	—
Non-cancelable operating leases	7,403	1,515	2,393	1,730	1,765
Acquisition payment obligations	1,800	1,800	—	—	—
Total contractual obligations	$149,891	$7,324	$8,208	$7,506	$126,853

In July 2004, we completed the private placement of our Notes and are obligated to pay approximately $1,444 in interest payments every six months under the Notes, payable on July 15 and January 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 (see Note 7 to the Consolidated Financial Statements).

In August 2004, we entered into a Convertible Secured Promissory Note Purchase Agreement (“Note Purchase Agreement”) with Medem in the aggregate principal amount of $2,100 under which Medem may borrow up to $2,100. We have funded $1,050 under the Note Purchase Agreement as of December 31, 2004 (see Note 6 to the Consolidated Financial Statements).

During the second quarter of 2004, we elected to reduce our Libertyville facilities by approximately 18,000 square feet, effective on January 1, 2005. This reduction in facility space was made due to our planned move of our corporate headquarters to a new location in downtown Chicago during the fourth quarter of 2004. The majority of our operations will remain at the Libertyville location. The new corporate facility lease consists of a ten-year lease for approximately 13,000 square feet.

Our acquisition payment obligation consists of a $1,800 holdback provision in connection with the acquisition of AIC. The holdback amount was established to provide for certain contingencies and financial items, as defined. We expect to make payment on the full amount of the holdback obligation during the first quarter of 2005.

Recent Accounting Pronouncements

In March 2004, the EITF reached a final consensus on Issue 03-6, "Participating Securities and the Two Class Method under Financial Accounting Standards Board Statement 128." Issue 03-6 requires the two-class method of calculating earnings per share for companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends of the company. Because we do not have any other issued securities other than our common stock, this change in computational methods has no impact on our earnings per share for any period in fiscal 2004 or any prior period.

In January 2003, the FASB initially issued interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 was revised in December 2003 when the FASB issued Interpretation No. 46 (Revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46(R)). FIN 46(R) is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," that replaces FIN 46 and revises the requirements for consolidation by business enterprises of variable interest entities with specific characteristics. The new consolidation requirements related to variable interest entities are required to be adopted no later than the first reporting period that ends after March 15, 2004, which is as of March 31, 2004 for Allscripts. Allscripts adopted the provisions of FIN 46(R) as of January 1, 2004 and adoption did not have an effect on its results of operations or financial position.

In November 2004, the EITF reached a final conclusion on Issue 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share" (EITF 04-8). EITF 04-8 addresses when the dilutive effect of contingently convertible debt with a market price trigger should be included in diluted earnings per share calculations. The EITF's conclusion is that the market price trigger should be ignored and that these securities should be treated as convertible securities and included in diluted earnings per share regardless of whether the conversion contingencies have been met. Because our Notes are contingently convertible debt with a market price trigger, we will be required to comply with EITF 04-8 beginning in the first quarter of fiscal 2005. Had the conclusions of EITF 04-8 been effective as of December 31, 2004, there would have been no change in Allscripts' reported earnings per share because the effect of its Notes was antidilutive.

In November 2004, the FASB issued FAS No 151, "Inventory Costs—an amendment of Accounting Research Bulletin No. 43, Chapter 4." This Statement amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, "Inventory Pricing" (ARB 43), to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that "under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges…" This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criteria of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, which is calendar year 2006 for Allscripts, and is applied prospectively. Allscripts does not expect the adoption of this standard to have a material affect on its consolidated financial statements.

In December 2004, the FASB issued FAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of Accounting Principles Bulletin (APB) Opinion No. 29." This Statement addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. This Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, which is third quarter 2005 for Allscripts. The provisions of this Statement shall be applied prospectively. Allscripts does not expect the adoption of this standard to have a material affect on its consolidated financial statements.

In December 2004, the FASB issued FAS No. 123(R), "Share-Based Payment" (FAS 123(R)). This statement requires that the compensation cost relating to share based payment transactions be recognized in the financial statements. Compensation cost is to be measured based on the estimated fair value of the equity-based compensation awards issued as of the grant date. The related compensation expense will be based on the estimated number of awards expected to vest and will be recognized over the requisite service period (often the vesting period) for each grant. The statement requires the use of assumptions and judgments about future events and some of the inputs to the valuation models will require considerable judgment by management. FAS No. 123(R) replaces FAS No. 123, "Accounting for Stock Based Compensation," and supersedes APB 25, "Accounting for Stock Issued to Employees." The provisions of FAS 123(R) are required to be applied by public companies as of the first interim or annual reporting period that begins after June 15, 2005, which is third quarter 2005 for Allscripts. Allscripts intends to continue applying APB 25 to equity-based compensation awards until the effective date of FAS 123(R). At the effective date of FAS 123(R), Allscripts expects to use the modified prospective application transition method without restatement of prior interim periods in the year of adoption. This will result in Allscripts recognizing compensation cost based on the requirements of FAS 123(R) for all equity-based compensation awards issued after July 1, 2005. For all equity-based compensation awards that are unvested as of July 1, 2005, compensation cost will be recognized for the unamortized portion of compensation cost not previously included in the FAS No. 123 pro forma footnote disclosure. Allscripts estimates the non-cash compensation charge for options granted through December 31, 2004, as a result of the adoption of FAS 123(R), to be in the range of $2.0 million to $3.0 million for the second half of 2005.

Risk Factors

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

Risks Related to Allscripts Healthcare Solutions, Inc.

If physicians do not accept our products and services, or delay in making decisions regarding the purchase of our products and services, our growth will be adversely affected.

Our business model depends on our ability to sell our clinical software, Physicians Interactive ™ products and our medication services. Physician acceptance of our products and services will require physicians to adopt different behavior patterns and new methods of conducting business and exchanging information. We cannot assure you that physicians will integrate our products and services into their office work flow or that participants in the pharmaceutical healthcare market will accept our products and services as a replacement for traditional methods of conducting healthcare transactions. Achieving market acceptance for our products and services will require substantial marketing efforts and the expenditure of significant financial and other resources to create awareness and demand by participants in the healthcare industry. If we fail to achieve broad acceptance of our products and services by physicians and other healthcare participants or if we fail to position our services as a preferred method for pharmaceutical healthcare delivery and information management, our prospects for growth will be diminished.

The duration of the sales cycle for our clinical software solutions and physician education services depends on a number of factors, including the nature and size of the potential customer and the extent of the commitment being made by the potential customer, and is difficult to predict. Our marketing efforts with respect to large healthcare organizations generally involve a lengthy sales cycle due to these organizations' complex decision-making processes. Additionally, in the wake of increased government involvement in healthcare, and related changes in the operating environment for healthcare organizations, our current and potential customers may react by curtailing or deferring investments, including those for our services. If potential customers take longer than we expect to decide whether to purchase our solutions, our selling expenses could increase, and we may need to raise additional capital sooner than we would otherwise need to.

We have historically experienced losses and we may not be profitable in the future.

We generated net income of $3,108 in 2004 and net losses of $4,979 in 2003 and $15,233 in 2002. We cannot be certain that we will generate sufficient revenues to maintain profitability. If our revenues grow more slowly than we anticipate, or if our operating expenses increase more than we expect or cannot be reduced in the event of lower revenues, our business will be materially and adversely affected. Because our business model is unproven, our operating history is not indicative of our future performance, and our business is difficult to evaluate.

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

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

In 2001, we entered into a ten-year strategic alliance agreement with IDX pursuant to which Allscripts and IDX agreed to coordinate product development and align our respective marketing processes. Under this agreement, IDX granted us the exclusive right to market, sell, license and distribute ambulatory point-of-care and clinical application products to IDX customers. This agreement does, however, permit IDX's continued development and distribution of its own "LastWord (n/k/a CareCast)" or radiology products and services, subject to certain limitations. Our business strategy includes targeting current and prospective IDX customers and their affiliates. If we fail to successfully implement that business strategy, we may not be able to achieve projected results. If a material adverse change in our business, properties, results of operations or condition occurs, IDX

may terminate the marketing restrictions in this agreement. If the strategic alliance agreement were terminated, our services might not be as attractive to IDX customers and we may not have access to this important customer base. In such an event, IDX might enter into arrangements that would allow our competitors to utilize IDX technology and IDX could compete against us, and we may not be able to align with another company to market and distribute our products on as favorable a basis as that represented by the IDX strategic alliance. If any of these situations were to occur, our expected revenues may be lower, and our business may be harmed. In addition, prior to the termination of this agreement, we cannot allow certain specified IDX direct competitors to market, distribute or sell our services, even if that agreement would benefit our business.

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

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

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

- extend the reach of our products and services to a larger number of physicians and to other participants in the healthcare industry;
- develop and deploy new products;
- further enhance the Allscripts brand; and
- generate additional revenue and cash flows

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

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

We have limited experience in establishing and maintaining strategic relationships with healthcare and Internet industry participants. If we lose any of these strategic relationships or fail to establish additional relationships, or if our strategic relationships fail to benefit us as expected, we may not be able to execute our business plan, and our business will suffer.

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

The successful integration of acquired businesses is critical to our success. Such acquisitions involve numerous risks, including difficulties in the assimilation of the operations, services, products and personnel of the acquired company, the diversion of management's attention from other business concerns, entry into markets

in which we have little or no direct prior experience, the potential loss of key employees of the acquired company and our inability to maintain the goodwill of the acquired businesses. If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses.

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

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

If we are unable to successfully introduce new products or fail to keep pace with advances in technology, our business prospects will be adversely affected.

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

If we cannot adapt to changing technologies, our products and services may become obsolete, and our business could suffer. Because the Internet and healthcare information markets are characterized by rapid technological change, we may be unable to anticipate changes in our current and potential customers' requirements that could make our existing technology obsolete. Our success will depend, in part, on our ability to continue to enhance our existing products and services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers, license leading technologies and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our proprietary technology entails significant technical and business risks. We may not be successful in using new technologies effectively or adapting our proprietary technology to evolving customer requirements or emerging industry standards.

Our future success depends upon our ability to grow, and if we are unable to manage our growth effectively, we may incur unexpected expenses and be unable to meet our customers' requirements.

We will need to expand our operations if we successfully achieve market acceptance for our products and services. We cannot be certain that our systems, procedures, controls and existing space will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and key employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. An unexpectedly large increase in the volume or pace of traffic on our web site or the number of orders placed by customers may require us to expand and further upgrade

our technology. We may not be able to project the rate or timing of increases in the use of our web site accurately or to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future growth could have a significant negative impact on our business because we may incur unexpected expenses and be unable to meet our customers' requirements.

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

Our success depends in large part on the continued service of our management and other key personnel and our ability to continue to attract, motivate and retain highly qualified employees. In particular, the services of Glen E. Tullman, our Chairman and Chief Executive Officer, are integral to the execution of our business strategy. If one or more of our key employees leaves our employment, we will have to find a replacement with the combination of skills and attributes necessary to execute our strategy. Because competition for skilled employees is intense, and the process of finding qualified individuals can be lengthy and expensive, we believe that the loss of the services of key personnel could negatively affect our business, financial condition and results of operations.

Our business depends on our intellectual property rights, and if we are unable to protect them, our competitive position may suffer.

Our business plan is predicated on our proprietary systems and technology, including TouchWorks™, TouchChart™, TouchScript®, Impact.MD™ and physician education products. We protect our proprietary rights through a combination of trademark, trade secret and copyright law, confidentiality agreements and technical measures. We generally enter into non-disclosure agreements with our employees and consultants and limit access to our trade secrets and technology. We cannot assure you that the steps we have taken will prevent misappropriation of technology. Misappropriation of our intellectual property would have a material adverse effect on our competitive position. In addition, we may have to engage in litigation in the future to enforce or protect our intellectual property rights or to defend against claims of invalidity, and we may incur substantial costs as a result.

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

We could be subject to intellectual property infringement claims as the number of our competitors grows and the functionality of our applications overlaps with competitive products. While we do not believe that we have infringed or are infringing on any valid proprietary rights of third parties, we cannot assure you that infringement claims will not be asserted against us or that those claims will be unsuccessful. We could incur substantial costs and diversion of management resources defending any infringement claims. Furthermore, a party making a claim against us could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to provide products or services. In addition, we cannot assure you that licenses for any intellectual property of third parties that might be required for our products or services will be available on commercially reasonable terms, or at all.

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

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

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

We may be liable for use of data we provide.

We provide data for use by healthcare providers in treating patients. Third-party contractors provide us with most of this data. While we maintain product liability insurance coverage in an amount that we believe is sufficient for our business, we cannot assure you that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. A claim brought against us that is uninsured or under-insured could materially harm our financial condition.

If our security is breached, we could be subject to liability, and customers could be deterred from using our services.

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

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

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

We cannot be certain that additional financing will be available to us on favorable terms, or at all. If adequate financing is not available or is not available on acceptable terms, our ability to fund our expansion, take advantage of potential acquisition opportunities, develop or enhance services or products, or respond to competitive pressures would be significantly limited.

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

We depend on independent content and service providers for many of the benefits we provide through our clinical software and our physician education applications and services, including the maintenance of managed care pharmacy guidelines, drug interaction reviews and the routing of transaction data to third-party payers. Any problems with our providers that result in interruptions of our services or a failure of our services to function as desired could damage our reputation in the marketplace and have a material adverse effect on our results of operations. We may have no means of replacing content or services on a timely basis or at all if they are inadequate or in the event of a service interruption or failure.

We also expect to rely on independent content providers for the majority of the clinical, educational and other healthcare information that we plan to provide. In addition, we will depend on our content providers to deliver high quality content from reliable sources and to continually upgrade their content in response to demand and evolving healthcare industry trends. Any failure by these parties to develop and maintain high quality, attractive content could impair the value of our brand and our results of operations.

If we are forced to reduce our prices, our results of operations could suffer.

We expect to derive a significant portion of our revenue from sales of prepackaged medications to physicians. We may be subject to pricing pressures with respect to our future sales of prepackaged medications arising from various sources, including practices of managed care organizations, Internet pharmacies, including those operating in Canada and other countries foreign to the United States, and government action affecting

pharmaceutical reimbursement under Medicare. Our customers and the other entities with which we have a business relationship are affected by changes in regulations and limitations in governmental spending for Medicare and Medicaid programs. Recent actions by Congress could limit government spending for the Medicare and Medicaid programs, limit payments to hospitals and other providers, and increase emphasis on competition and other programs that potentially could have an adverse effect on our customers and the other entities with which we have a business relationship. If our pricing of medications solutions experiences significant downward pressure, our business will be less profitable.

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

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

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

We are a defendant in numerous multi-defendant lawsuits involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine. In the event we are found liable in any lawsuits filed against us, and if our insurance coverage were inadequate to satisfy these liabilities, it could have a material adverse effect on our financial condition. See “Legal Proceedings.”

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

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

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

If we fail to maintain adequacy of our internal controls in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our stock price.

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

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

Risks Related to Our Industry

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

As a participant in the healthcare industry, our operations and relationships, and those of our customers, are regulated by a number of federal, state and local governmental entities. The impact of this on us is direct, to the extent we are ourselves subject to these laws and regulations, and is also indirect in that in a number of situations, even though we may not be directly regulated by specific health care laws and regulations, our products must be capable of being used in a manner that complies with those laws and regulations by our customers. Inability of our customers to do so could affect the marketability of our products, our compliance with our customer contracts, or even expose us to direct liability on a theory that we had assisted our customers in a violation of health care laws or regulations. Because our business relationships with physicians are unique, and the healthcare electronic commerce industry as a whole is relatively young, the application of many state and federal regulations to our business operations and to our customers' is uncertain. It is possible that a review of our business practices or those of our customers by courts or regulatory authorities could result in a determination that could adversely affect us. In addition, the healthcare regulatory environment may change in a way that restricts our existing operations or our growth. This industry is expected to continue to undergo significant changes for the foreseeable future, which could have an adverse effect on our business, financial condition or results of operations. Future regulation of our business practices or those of our customers may adversely affect us.

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

- ***Patient Information.*** As part of the operation of our business, our customers provide to us patient-identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. Government and industry legislation and rulemaking, especially the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and standards and requirements published by industry groups such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), require the use of standard transactions, standard identifiers, security and other standards and requirements for the transmission of certain electronic health information. New national standards and procedures under HIPAA include the *"Standards for Electronic Transactions and Code Sets"* (the Transaction Standards); the *"Security Standards"* (the Security Standards); and *"Standards for Privacy of Individually Identifiable Health Information"* (the Privacy Standards). The Transaction Standards require the use of specified data coding, formatting and content in all specified "Health Care Transactions" conducted electronically. The Security Standards require the adoption of specified types of security for health care information. The Privacy Standards grant a number of rights to individuals as to their identifiable confidential medical information (called Protected Health Information) and restrict the use and disclosure of Protected Health Information by Covered Entities. Generally, the HIPAA standards directly affect Covered Entities, defined as "health care providers, health care payers, and health care clearinghouses." We have reviewed our activities and believe that we are a covered entity under HIPAA to the extent that we maintain a "group health plan" for the benefit of our employees. Such a plan, even if not a separate legal entity from us as its sponsor, is included in the HIPAA definition of covered entities. We have taken steps we believe to be appropriate and required to bring our group health plan into compliance with HIPAA. We believe that we are not a covered entity as a health care provider or as a health care clearinghouse; however, the definition of a health care clearinghouse is broad, generally encompassing companies that process or facilitate the processing of health information received from another entity in a non-standard format or containing nonstandard data content into standard elements or a standard transaction or vise-versa and there is, as yet, little interpretive guidance from the HIPAA regulators on this point. Accordingly, we cannot offer any assurance that we could not be considered a health care clearinghouse under HIPAA or that, if we are determined to be a healthcare clearinghouse, the consequences would not be material and adverse to our business and operations. In addition, the Privacy Standards affect third parties that create or access

Protected Health Information in order to perform a function or activity on behalf of a Covered Entity. Such third parties are called "Business Associates." Covered Entities must have a written "Business Associate Agreement" with such third parties, containing specified written "satisfactory assurances" that the third party will safeguard Protected Health Information that it creates or accesses and will fulfill other material obligations to support the covered entity's own HIPAA compliance. Most of our customers are Covered Entities and we function in many of our relationships as a business associate of those customers. We would face liability under our Business Associate Agreements, as it would under any other contractual agreement, if we do not comply with our business associate obligations. In addition, the federal agencies with enforcement authority have taken the position that a covered entity can be subject to HIPAA penalties and sanctions for a breach of a business associate agreement. The penalties for a violation of HIPAA by a covered entity are significant and could have a material adverse impact upon us, were such penalties ever to be imposed. Additionally, Covered Entities will be required to adopt a unique standard National Provider Identifier (NPI), for use in filing and processing health care claims and other transactions. Subject to the discussion set forth above, we believe that the principal effects of HIPAA are, or will be, first, to require that our systems be capable of being operated by our customers in a manner that is compliant with the various HIPAA standards and, second, to require us to enter into and comply with Business Associate Agreements with our Covered Entity customers. For most Covered Entities, the deadlines for compliance with the Privacy Standards and the Transaction Standards occurred in 2003. Covered Entities must be in compliance with the Security Standards by April 20, 2005, and must use NPIs in standard transactions no later than the compliance dates, which are May 23, 2007, for all but small health plans and one year later for small health plans. We have policies and procedures that we believe assure compliance with all federal and state confidentiality requirements for handling of Protected Health Information that we receive and with our obligations under Business Associate Agreements, subject to the discussion of HIPAA above. In particular, we believe that our systems and products are capable of being used by our customers in compliance with the Transaction Standards and are, or will be, capable of being used by our customers in compliance with the Security Standards and the NPI requirements. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent the unauthorized disclosure of confidential medical information, we could be subject to liability, fines and lawsuits, termination of our customer contracts, or our operations could be shut down. Moreover, because all HIPAA Standards are subject to change or interpretation and because certain other HIPAA Standards, not discussed above, are not yet published, we cannot predict the future impact of HIPAA on our business and operations. In the event that the Privacy Standards and other HIPAA compliance requirements change or are interpreted in a way that requires material change to the way in which we do business, it could have a material adverse effect on our business, results of operations and prospects. Additionally, certain state laws are not pre-empted by the HIPAA Standards and may impose independent obligations upon our customers or us. Additional legislation governing the acquisition, storage, and transmission or other dissemination of health record information and other personal information, including social security numbers, has been proposed at both the state and federal level. Such legislation may require holders of such information to implement additional security, reporting or other measures that may require substantial expenditures and may impose liability for a failure to comply with such requirements. In many cases, such proposed state legislation includes provisions that are not preempted by HIPAA. There can be no assurance that changes to state or federal laws will not materially restrict the ability of providers to submit information from patient records using our products and services.

- ***Electronic Prescribing.*** The use of our software by physicians to perform a variety of functions, including electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing, is governed by state and federal law. States have differing prescription format requirements, which we have programmed into our software. Many existing laws and regulations, when enacted, did not anticipate methods of e-commerce now being developed. While federal law and the laws of many states permit the electronic transmission of prescription orders, the laws of several states neither specifically permit nor specifically prohibit the practice. Given the rapid growth of e-commerce in healthcare, and

particularly the growth of the Internet, we expect the remaining states to directly address these areas with regulation in the near future. In addition, on February 4th, 2005, the Department of Health and Human Services published its proposed "E-Prescribing and the Prescription Drug Program" regulations ("Draft E-Prescribing Regulations"). These regulations are required by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA"). The Draft E-Prescribing Regulations consist of detailed standards and requirements, in addition to the HIPAA electronic transaction standards discussed above, for prescription and other information transmitted electronically in connection with a drug benefit covered by the MMA's Prescription Drug Benefit. These standards, as proposed, are detailed and significant, and cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility and benefits inquiries and drug formulary and benefit coverage information. As proposed, the standards will be binding on prescription drug plans participating in the MMA's Prescription Drug Benefit but compliance will be voluntary for physicians and pharmacies. Comments on the Draft E-Prescribing Regulations are not due until April 5, 2005 and final E-Prescribing Regulations will be published thereafter. Until final regulations are published, we cannot fully assess the impact of the E-Prescribing Regulations on our products and services or on our customers. We believe that it is likely that aspects of our TouchWorks ™ and TouchChart™ software tools could become subject to government regulation or could become indirectly affected by such regulation because of the need of our customers to comply, as discussed above. Compliance with these regulations could be burdensome, time-consuming and expensive for us and for our customers. We also could become subject to future legislation and regulations concerning the development and marketing of healthcare software systems. These could increase the cost and time necessary to market new services and could affect us in other respects not presently foreseeable. We cannot predict the effect of possible future legislation and regulation.

- ***Claims Transmission.*** As part of our services provided to physicians, our system will electronically transmit claims for prescription medications dispensed by a physician to many patients' payers for immediate approval and reimbursement. Federal law provides that it is both a civil and a criminal violation for any person to submit, or cause to be submitted, a claim to any payer, including, for example, Medicare, Medicaid and all private health plans and managed care plans, seeking payment for any services or products that over-bills or bills for items that have not been provided to the patient. We have in place policies and procedures that we believe assure that all claims that are transmitted by our system are accurate and complete, provided that the information given to us by our customer is also accurate and complete. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent inaccurate claims from being submitted, we could be subject to liability. The HIPAA Transaction Standards and the HIPAA Security Standards, as discussed above, will also have a potentially significant effect on our claims transmission services, since those services must be structured and provided in a way that supports our customers' HIPAA compliance obligations.
- ***Medical Devices.*** The United States Food and Drug Administration (FDA) has promulgated a draft policy for the regulation of computer software products as medical devices under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act. To the extent that computer software is a medical device under the policy, we, as a manufacturer of such products, could be required, depending on the product, to:
  - register and list our products with the FDA;
  - notify the FDA and demonstrate substantial equivalence to other products on the market before marketing such products; or
  - obtain FDA approval by demonstrating safety and effectiveness before marketing a product.

Depending on the intended use of a device, the FDA could require us to obtain extensive data from clinical studies to demonstrate safety or effectiveness, or substantial equivalence. If the FDA requires this data, we would be required to obtain approval of an investigational device exemption before

undertaking clinical trials. Clinical trials can take extended periods of time to complete. We cannot provide assurances that the FDA will approve or clear a device after the completion of such trials. In addition, these products would be subject to the Federal Food, Drug and Cosmetic Act's general controls, including those relating to good manufacturing practices and adverse experience reporting. Although it is not possible to anticipate the final form of the FDA's policy with regard to computer software, we expect that the FDA is likely to become increasingly active in regulating computer software intended for use in healthcare settings regardless of whether the draft is finalized or changed. The FDA can impose extensive requirements governing pre- and post-market conditions like service investigation, approval, labeling and manufacturing. In addition, the FDA can impose extensive requirements governing development controls and quality assurance processes.

- ***eDetailing.*** Our pharmaceutical and medical device clients use PI eDetailing programs to provide physicians with valuable and up-to-date information about various medications and medical products, as well as to collect feedback from physician opinion leaders and other experts. Pharmaceutical marketing activities are subject to various regulatory and compliance initiatives, including an industry-sponsored ethics initiative developed by the Pharmaceutical Research and Manufacturers of America ("PhRMA Code") and the final Compliance Program Guidance for Pharmaceutical Manufacturers issued on April 28, 2003, by the HHS Office of Inspector General (OIG). Such initiatives, some of which are required some of which are voluntary, articulate concerns, recommendations and standards concerning a variety of pharmaceutical product marketing activities and issues, including eDetailing, kickback concerns, discounts, switching arrangements, research/consulting/advisory payments, relationships with other healthcare providers, including physicians, and gifts/entertainment/other remuneration, among others. Additionally, as a sender of electronic mail in connection with some of our educational programs, we are subject to the CAN-SPAM Act of 2003 and other state and federal laws regulating senders of electronic mail for commercial purposes. We believe that our programs and activities comply with applicable laws and regulations, and are consistent with PhRMA Code and OIG recommendations and standards. However, if our physician educational programs and/or the funding thereof were found to be conducted in a manner inconsistent with such laws, regulations or initiatives, or if we are required to materially change to the way in which we do business in order in order to conform with such laws, regulations and initiatives, our business, results of operations and prospects would be adversely affected.
- ***Licensure and Physician Dispensing.*** As a repackager and distributor of drugs, we are subject to regulation by and licensure with the FDA, the Drug Enforcement Agency (DEA) and various state agencies that regulate wholesalers or distributors. Among the regulations applicable to our repackaging operation are the FDA's "good manufacturing practices." We are subject to periodic inspections of our facilities by regulatory authorities, and adherence to policies and procedures for compliance with applicable legal requirements. Because the FDA's good manufacturing practices were designed to govern the manufacture, rather than the repackaging, of drugs, we face legal uncertainty concerning the application of some aspects of these regulations and of the standards that the FDA will enforce. If we do not maintain all necessary licenses, or the FDA decides to substantially modify the manner in which it has historically enforced its good manufacturing practice regulations against drug repackagers or the FDA or DEA finds any violations during one of their periodic inspections, we could be subject to liability, and our operations could be shut down.
    - While physician dispensing of medications for profit is allowed in most states, as highlighted above, it is limited in a few states. It is possible that certain states may enact further legislation or regulations prohibiting, restricting or further regulating physician dispensing. Similarly, while a July 2002 Opinion the American Medical Association's Council on Ethical and Judicial Affairs (CEJA) provides in relevant part that "Physicians may dispense drugs within their office practices provided such dispensing primarily benefits the patient", the AMA has historically taken inconsistent positions on physician dispensing and past Reports of the CEJA have opposed the in-office sale of health-related products by physicians, and it is possible that the CEJA may in the future oppose the in-office sale of health-related products by physicians. Any such state legislative prohibitions or CEJA opposition of physician dispensing could adversely affect us.

- Congress enacted significant prohibitions against physician self-referrals in the Omnibus Budget Reconciliation Act of 1993. This law, commonly referred to as "Stark II," applies to physician dispensing of outpatient prescription drugs that are reimbursable by Medicare or Medicaid. Stark II, however, includes an exception for the provision of in-office ancillary services, including a physician's dispensing of outpatient prescription drugs, provided that the physician meets the requirements of the exception. We believe that the physicians who use our system or dispense drugs distributed by us are aware of these requirements, but we do not monitor their compliance and have no assurance that our customers are in material compliance with Stark II, either pursuant to the in-office ancillary services exception or another applicable exception. If it were determined that the physicians who use our system or dispense pharmaceuticals purchased from us were not in compliance with Stark II, it could have a material adverse effect on our business, results of operations and prospects.
- As a distributor of prescription drugs to physicians, we are subject to the federal anti-kickback statute, which applies to Medicare, Medicaid and other state and federal programs. The statute prohibits the solicitation, offer, payment or receipt of remuneration in return for referrals or the purchase, or in return for recommending or arranging for the referral or purchase, of goods, including drugs, covered by the programs. The anti-kickback law provides a number of statutory exceptions and regulatory "safe harbors" for particular types of transactions. We believe that our arrangements with our customers are in material compliance with the anti-kickback statute and relevant safe harbors. Many states have similar fraud and abuse laws, and we believe that we are in material compliance with those laws. If, however, it were determined that we, as a distributor of prescription drugs to physicians, were not in compliance with the federal anti-kickback statute, we could be subject to liability, and our operations could be curtailed. Moreover, if the activities of our customers or other entity with which we have a business relationship were found to constitute a violation of the federal anti-kickback law and we, as a result of the provision of products or services to such customer or entity, were found to have knowingly participated in such activities, we could be subject to sanction or liability under such laws, including civil and/or criminal penalties, as well as exclusion from government health programs. As a result of exclusion from government health programs, neither products nor services could be provided to any beneficiaries of any federal healthcare program.

Increased government involvement in healthcare could adversely affect our business.

U.S. healthcare system reform under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, and other initiatives at both the federal and state level, could increase government involvement in healthcare, lower reimbursement rates and otherwise change the business environment of our customers and the other entities with which we have a business relationship. While no federal price controls are included in the Medicare Prescription Drug, Improvement and Modernization Act, any legislation that reduces physician incentives to dispense medications in their offices could adversely affect physician acceptance of our products. We cannot predict whether or when future health care reform initiatives at the federal or state level or other initiatives affecting our business will be proposed, enacted or implemented or what impact those initiatives may have on our business, financial condition or results of operations. Our customers and the other entities with which we have a business relationship could react to these initiatives and the uncertainty surrounding these proposals by curtailing or deferring investments, including those for our products and services. Additionally, government regulation could alter the clinical workflow of physicians and other healthcare participants, thereby limiting the utility of our products and services to existing and potential customers and curtailing broad acceptance our products and services.

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

The electronic healthcare information market is in the early stages of development and is rapidly evolving. A number of market entrants have introduced or developed products and services that are competitive with one or

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

Consolidation in the healthcare industry could adversely affect our business.

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

Risks Related to Our Stock

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

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

- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations or new services or products by our competitors or us;
- changes in financial estimates by securities analysts;
- conditions and trends in the electronic healthcare information, Internet, e-commerce and pharmaceutical markets; and
- general market conditions and other factors.

In addition, the stock markets, especially the NASDAQ National Market, have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many technology companies, and Internet-related companies in particular. These fluctuations have often been unrelated or disproportionate to operating performance. These broad market factors may materially affect the trading price of our common stock. General economic, political and market conditions like recessions and interest rate fluctuations may also have an adverse effect on the market price of our common stock. Volatility in the market price for our common stock may result in the filing of securities class action litigation.

Our quarterly operating results may vary.

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

Conversion of the Notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their debentures.

The conversion of some or all of our Notes will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could depress the price of our common stock.

Recent changes in the accounting treatment of the Notes may cause us to report significant dilution of our earnings per share.

In November 2004, the EITF reached a final conclusion on Issue 04-8 that changed the accounting treatment for contingent convertible securities. As a result, the shares of common stock issuable upon conversion of the Notes must be included in any calculation of earnings per share on a fully diluted basis. This change will not impact our calculation of diluted earnings per share until we have sufficient net income to cause the inclusion of the shares into which the Notes may be convertible to be dilutive. At such time, this change will reduce our reported earnings per share, which may in turn have an adverse impact on the market price of our common stock and the Notes. As of December 31, 2004, this change did not impact our earnings per share because the effect was antidilutive.

Safe Harbor for Forward-Looking Statements

This report and statements we make or our representatives make contain forward-looking statements that involve risks and uncertainties, including those discussed above and elsewhere in this report. We develop forward-looking statements by combining currently available information with our beliefs and assumptions. These statements 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 make these statements under the protection afforded them by Section 21E of the Securities Exchange Act of 1934, as amended. Because we cannot predict all of the risks and uncertainties that may affect us, or control the ones we do predict, these risks and uncertainties can cause our results to differ materially from the results we express in our forward-looking statements.

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

As of December 31, 2004, 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 December 31, 2004, we had cash, cash equivalents and marketable securities in financial instruments of $128,239. Declines in interest rates over time will reduce our interest income from our investments. Based upon our balance of cash, cash equivalents and marketable securities as of December 31, 2004, a decrease in interest rates of 1.0% would cause a corresponding decrease in our annual interest income by approximately $1,282.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Allscripts Healthcare Solutions, Inc.:

We have audited the accompanying consolidated balance sheet of Allscripts Healthcare Solutions, Inc. and subsidiaries ("the Company") as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allscripts Healthcare Solutions, Inc. as of December 31, 2004, and the results of its operations, its changes in stockholders' equity and comprehensive income (loss) and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 4, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Allscripts Healthcare Solutions, Inc.:

We have audited the accompanying consolidated balance sheet of Allscripts Healthcare Solutions, Inc. and subsidiaries (the Company) as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years ended December 31, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allscripts Healthcare Solutions, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chicago, Illinois
February 19, 2004

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 31,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$16,972	$13,336
Marketable securities	22,796	3,435
Accounts receivable, net of allowances of $3,010 and $3,128 in 2004 and 2003, respectively	21,382	18,219
Other receivables	627	237
Inventories	2,372	3,249
Prepaid expenses and other current assets	3,571	3,863
Total current assets	67,720	42,339
Long-term marketable securities	88,471	34,538
Fixed assets, net	2,366	2,237
Software development costs, net	6,270	4,040
Intangible assets, net	10,833	12,074
Goodwill	13,713	14,285
Other assets	4,804	879
Total assets	$194,177	$110,392
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$5,981	$6,082
Accrued expenses	9,568	5,558
Accrued compensation	2,650	2,244
Accrued restructuring and other charges	—	104
Deferred revenue	14,607	10,959
Total current liabilities	32,806	24,947
Long-term debt	82,500	—
Other liabilities	178	2,055
Total liabilities	115,484	27,002
Preferred stock:		
Undesignated, $0.01 par value, 1,000 shares authorized, no shares issued and outstanding at December 31, 2004 and 2003	—	—
Common stock:		
$0.01 par value, 150,000 shares authorized; 40,114 and 39,050 shares issued and outstanding at December 31, 2004 and 2003, respectively	401	391
Less treasury stock:		
$0.01 par value, 1,399 shares at December 31, 2004, 0 shares at December 31, 2003	(11,250)	—
Additional paid-in capital	645,541	641,415
Accumulated deficit	(555,410)	(558,518)
Accumulated other comprehensive income (loss)	(589)	102
Total stockholders' equity	78,693	83,390
Total liabilities and stockholders' equity	$194,177	$110,392

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)

	Year ended December 31,		
	2004	2003	2002
Revenue:			
Prepackaged medications	$44,733	$46,172	$49,298
Software and related services	44,121	28,366	19,921
Information services	11,916	11,303	9,583
Total revenue	100,770	85,841	78,802
Cost of revenue:			
Prepackaged medications	35,744	36,303	40,044
Software and related services	15,858	14,050	14,806
Information services	6,520	4,816	4,081
Total cost of revenue	58,122	55,169	58,931
Gross profit	42,648	30,672	19,871
Operating expenses:			
Selling, general and administrative expenses	37,653	36,058	36,412
Amortization of intangibles	1,752	951	540
Restructuring and other charges	—	—	600
Income (loss) from operations	3,243	(6,337)	(17,681)
Interest income	1,675	1,384	2,406
Interest expense	(1,717)	—	—
Other income (expense), net	(93)	(26)	42
Income (loss) from operations before income taxes	3,108	(4,979)	(15,233)
Provision for income tax	—	—	—
Net income (loss)	$3,108	($4,979)	($15,233)
Basic net income (loss) per share	$0.08	($0.13)	($0.40)
Diluted net income (loss) per share	$0.07	($0.13)	($0.40)
Weighted-average shares outstanding used in computing basic net income (loss) per share	38,979	38,621	38,337
Weighted-average shares outstanding used in computing diluted net income (loss) per share	41,592	38,621	38,337

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Unearned Compen-sation	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount			Shares	Amount			
Balance at December 31, 2001	—	$—	38,050	$381	$636,755	($404)	34	($68)	($538,306)	$276	$98,634
Issuance of 379 shares of common stock, net of transaction costs			379	4	1,978						1,982
Issuance of 32 shares of common stock under option and warrant agreements			32		26						26
Retirement of 34 shares of common stock held in treasury			(34)		(68)		(34)	68			—
Compensation expense					3	326					329
Net loss									(15,233)		(15,233)
Unrealized gain on marketable securities, net of tax of $0										83	83
Balance at December 31, 2002	—	$—	38,427	$385	$638,694	($78)	—	$—	($553,539)	$359	$85,821
Issuance of 623 shares of common stock under option and warrant agreements			623	6	553						559
Compensation expense						78					78
Issuance of stock options in connection with acquisitions					2,168						2,168
Net loss									(4,979)		(4,979)
Unrealized loss on marketable securities, net of tax of $0										(257)	(257)
Balance at December 31, 2003	—	$—	39,050	$391	$641,415	$—	—	$—	($558,518)	$102	$83,390
Issuance of 1,064 shares of common stock under option agreements			1,064	10	4,126						4,136
Repurchase of common stock							(1,399)	(11,250)			(11,250)
Net income									3,108		3,108
Unrealized loss on marketable securities, net of tax of $0										(691)	(691)
Balance at December 31, 2004	—	$—	40,114	$401	$645,541	$—	(1,399)	($11,250)	($555,410)	($589)	$78,693

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

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

	Year ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$3,108	($4,979)	($15,233)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,972	4,932	5,558
Restructuring and other charges	—	—	600
Non-cash compensation expense	—	78	329
Realized gain on investments	(3)	(95)	(122)
Provision for doubtful accounts	451	558	896
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(3,633)	851	(5,043)
Other receivables	(390)	510	(76)
Inventories	877	739	2,450
Prepaid expenses and other assets	741	—	(117)
Accounts payable	(101)	1,301	(672)
Accrued expenses	2,552	1,539	36
Accrued compensation	406	(761)	(262)
Accrued restructuring and other charges	(104)	(1,036)	(1,807)
Deferred revenue	3,648	1,505	2,665
Other liabilities	(77)	63	28
Net cash provided by (used in) operating activities	12,447	5,205	(10,770)
Cash flows from investing activities:			
Capital expenditures	(1,623)	(685)	(1,653)
Purchase of marketable securities	(112,262)	(52,162)	(35,473)
Maturities of marketable securities	38,299	61,881	31,805
Investment in promissory note receivable and minority interest	(1,550)	—	—
Capitalized software and website development costs	(3,962)	(2,400)	(2,697)
Payments for acquisitions, net of cash acquired	(139)	(16,084)	125
Net cash used in investing activities	(81,237)	(9,450)	(7,893)
Cash flows from financing activities:			
Payments of capital lease obligations	(72)	(225)	(222)
Proceeds from issuance of long-term debt	79,612	—	—
Purchase of treasury stock	(11,250)	—	—
Proceeds from issuance of common stock, net of transaction costs	—	—	1,982
Proceeds from exercise of common stock options	4,136	559	26
Net cash provided by financing activities	72,426	334	1,786
Net increase (decrease) in cash and cash equivalents	3,636	(3,911)	(16,877)
Cash and cash equivalents, beginning of year	13,336	17,247	34,124
Cash and cash equivalents, end of year	$16,972	$13,336	$17,247

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

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

1. Nature of Business

Allscripts Healthcare Solutions, Inc. ("Allscripts") is a leading provider of clinical software, connectivity and information solutions that physicians use to improve healthcare. Our business groups provide unique solutions that inform physicians, delivering just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare improving both the quality and efficiency of care. Our Clinical Solutions Group's software applications include electronic health record ("EHR"), e-prescribing and document imaging solutions. Additionally, we provide healthcare product education and connectivity solutions for physicians and patients through its Physicians Interactive™ Group and medication fulfillment services through our Medication Services Group.

We report our financial results utilizing three business segments: software and related services segment, information services segment, and prepackaged medications segment. The software and related services segment consists of clinical software solutions offered by our Clinical Solutions Group ("CSG"), such as TouchWorks™, TouchScript® and Impact.MD™. 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. It has the functionality to handle the complexities of large physician practices. TouchScript® is an e-prescribing solution that physicians can access securely via the Internet to quickly, safely and securely prescribe, check for drug interactions, access medication histories, review drug reference information, and send prescriptions directly to a pharmacy. Impact.MD™ is an electronic document imaging and scanning solution that serves as a repository for automated patient charts, office notes, lab results, explanation of benefits ("EOBs") and referral letters among other paper-based documents. Both Impact.MD ™ and TouchScript® can be starting points for medical groups to seamlessly transition over time to a complete EHR.

We plan to release another clinical solution product in the second quarter of 2005 called TouchChart™. It is a complete EHR solution designed specifically to meet the needs and workflow of small to mid-size physician practices, generally comprised of less than fifteen physicians.

In our information services segment, our key product offering is Physicians Interactive™. PI is a clinical education and information solution that links physicians with pharmaceutical companies and medical product suppliers using interactive education sessions to provide clinical product information to the physician. With the introduction of our Patients Interactive™ solution in February 2005, we now provide a clinical education and information solution that connects physicians to their patients through on-line, medication adherence and disease management programs. Patients Interactive ™ is a solution used to educate patients about their condition and provides various on-line and off-line tools to improve patient outcomes and therapy adherence. As a result of our acquisition in 2003 of certain assets and assumed liabilities of RxCentric, Inc. ("RXCentric"), a provider of technology-enabled sales and marketing solutions for the pharmaceutical industry, we have expanded our client base in the United States and have better access to the international market for our clinical and educational solutions. The RxCentric Business has been fully integrated into our information services segment.

Finally, our prepackaged medications segment is comprised of our Medications Services Group, formerly known as Allscripts Direct ™. This group provides point-of-care medication management and medical supply solutions for physicians and other healthcare providers.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Allscripts and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Stock-Based Compensation

At December 31, 2004, Allscripts had two stock-based employee compensation plans, which are more fully described in Note 10. Allscripts applies the provisions of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation" (FAS 123). As allowed by FAS 123, Allscripts has elected to continue to account for its stock-based compensation programs according to the provisions of Accounting Principles Bulletin (APB) No. 25, "Accounting for Stock Issued to Employees" (APB 25). Accordingly, compensation expense has been recognized based on the intrinsic value of compensatory options or shares granted under the plans. Allscripts has adopted the disclosure provisions required by FAS No. 123.

Had Allscripts elected to apply the provisions of FAS 123 regarding recognition of compensation expense to the extent of the calculated fair value of stock options granted, reported net income (loss) per share for the three years ended December 31, 2004 would have been as follows:

	2004	2003	2002
Net income (loss), as reported	$3,108	($4,979)	($15,233)
Stock-based compensation cost included in net income (loss), as reported	—	78	329
Stock-based compensation cost	(16,468)	(21,506)	(18,768)
Pro forma net loss	($13,360)	($26,407)	($33,672)
Basic net income (loss) per share, as reported	$0.08	($0.13)	($0.40)
Diluted net income (loss) per share, as reported	$0.07	($0.13)	($0.40)
Basic and diluted pro forma net loss per share	($0.34)	($0.68)	($0.88)

Under FAS 123, compensation expense representing fair value of the option grant is recognized over the vesting period.

For purposes of the FAS 123 pro forma net loss and net loss per share calculation, the fair value of each option grant is estimated as of the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used in determining fair value are as follows:

	2004	2003	2002
Risk-free interest rate	2.78%	2.23%	3.95%
Option life (years)	2.4	3.8	4.0
Volatility	174%	110%	123%
Dividend rate	— %	— %	— %

For the years ended December 31, 2004, 2003 and 2002, the weighted-average fair value of options granted was $7.28, $2.62 , and $2.41, respectively.

In December 2004, the Financial Accounting Standards Board (FASB) issued FAS No. 123 (Revised 2004), "Share-Based Payment" (FAS 123(R)) This statement requires that the compensation cost relating to share based payment transactions be recognized in the financial statements. Compensation cost is to be measured based on the estimated fair value of the equity-based compensation awards issued as of the grant date. The related compensation expense will be based on the estimated number of awards expected to vest and will be recognized over the requisite service period (often the vesting period) for each grant. The statement requires the use of assumptions and judgments about future events and some of the inputs to the valuation models will require considerable judgment by management. FAS No. 123(R) replaces FAS No. 123, "Accounting for Stock Based Compensation," and supersedes APB 25 "Accounting for Stock Issued to Employees." The provisions of FAS 123(R) are required to be applied by public companies as of the first interim or annual reporting period that begins after June 15, 2005, which is third quarter 2005 for Allscripts. Allscripts intends to continue applying APB 25 to equity-based compensation awards until the effective date of FAS 123(R). At the effective date of

FAS 123(R), Allscripts expects to use the modified prospective application transition method without restatement of prior interim periods in the year of adoption. This will result in Allscripts recognizing compensation cost based on the requirements of FAS 123(R) for all equity-based compensation awards issued after July 1, 2005. For all equity-based compensation awards that are unvested as of July 1, 2005, compensation cost will be recognized for the unamortized portion of compensation cost not previously included in the FAS No. 123 pro forma footnote disclosure. Allscripts estimates the non-cash compensation charge for options granted through December 31, 2004, as a result of the adoption of FAS 123(R), to be in the range of $2.0 million to $3.0 million for the second half of 2005.

Revenue Recognition

Revenue from the prepackaged medications segment, from the sale of medications, 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 the right of return on 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 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. Maintenance and support from these agreements is recognized over the term of the support agreement based on vendor-specific evidence of fair value of the maintenance revenue, which is generally based upon contractual renewal rates. For agreements that are deemed to have extended payment terms, revenue is recognized using the input method but is limited to the amounts due and payable.

Prior to January 1, 2003, Allscripts’ previously disclosed policy was to recognize revenue on an output basis as contract milestones were reached. Allscripts has concluded that the input basis more closely reflects the revenue earnings process in accordance with accounting principles generally accepted in the United States of America.

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 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 our customer arrangements in our information services segment encompass multiple deliverables. We account 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. The adoption of EITF 00-21 during the second half of 2003 did not have a significant effect on our revenue recognition due to the methodology utilized prior to EITF 00-21 having very similar accounting treatment for multiple deliverables.

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

As of December 31, 2004 and 2003, respectively, there was $2,351 and $1,066 of revenue earned on contracts in excess of billings, which is 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:

	December 31,	
	2004	2003
Prepayments and billings in excess of revenue earned on contracts in progress for software, services and support provided by the CSG business included in our software and related services segment	$9,073	$5,784
Prepayments and billings in excess of revenue earned for interactive physician education sessions and transaction revenue services provided by the Physicians Interactive ™ business included in our information services segment	5,140	4,849
Other prepayments and billings in excess of revenue	394	326
Total deferred revenue	$ 14,607	$10,959

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalent balances at December 31, 2004 and 2003 consist of cash and highly liquid corporate debt securities with maturities at the time of purchase of less than 90 days. Allscripts' cash, cash equivalents, short-term marketable securities and long-term marketable securities are invested in overnight repurchase agreements, money market funds, U.S. and non-U.S. government debt securities, and corporate debt securities. The carrying values of cash and cash equivalents, short-term marketable securities and long-term marketable securities held by Allscripts are as follows:

	December 31,	
	2004	2003
Cash and cash equivalents:		
Cash	$10,093	$3,609
Money market funds	381	2,232
Corporate debt securities	6,498	7,495
	16,972	13,336
Short-term marketable securities:		
Corporate debt securities	16,805	2,164
U.S. government and agency debt obligations	5,991	1,271
	22,796	3,435
Long-term marketable securities:		
U.S. government and agency debt obligations	18,841	13,524
Corporate debt securities	69,630	21,014
	88,471	34,538
Total cash, cash equivalents and marketable securities	$128,239	$51,309

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. Allscripts received approximately $79,612 in net proceeds from the offering after deduction for underwriting fees and professional expenses. Allscripts used approximately $11,250 of the net proceeds to repurchase approximately 1,399 shares of its common stock, which are held in treasury, and will use the remaining net proceeds for general corporate purposes, which may include future additional share repurchases, acquisitions or other strategic investments (see Note 7).

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates the designation at each balance sheet date. As of December 31, 2004 and 2003, marketable securities were classified as available-for-sale and carried at their fair value, with the unrealized gains and losses reported net-of-tax in a separate component of stockholders' equity. The components of the net unrealized gain (loss) on marketable securities are as follows:

	As of December 31,	
	2004	2003
Short-term marketable securities:		
Gross unrealized gains	$2	$1
Gross unrealized losses	(60)	(2)
Net unrealized gain (loss)	(58)	(1)
Long-term marketable securities:		
Gross unrealized gains	7	141
Gross unrealized losses	(538)	(38)
Net unrealized gain (loss)	(531)	103
Total net unrealized gain (loss) on marketable securities	($589)	$102

For the years ended December 31, 2004, 2003, and 2002, net realized gains were $3, $95, and $122, respectively.

Realized gains and losses and declines in value determined to be other-than-temporary on available-for-sale securities are included in other income (expense), net. The cost of securities sold is based on specific identification. Interest and dividends on securities classified as available-for-sale are included in interest income. There were no other-than-temporary declines for the years ended December 31, 2004, 2003, and 2002.

Allowance for Doubtful Accounts Receivable

Accounts receivable are recorded at the invoiced amounts and do not bear interest. The allowance for doubtful accounts is recorded to provide for estimated losses resulting from uncollectible accounts, and is based principally upon specifically identified amounts where collection is deemed doubtful. Additional non-specific allowances are recorded based on historical experience and management's assessment of a variety of factors related to the general financial condition of Allscripts' customer base. Allscripts reviews the collectibility of individual accounts and assesses the adequacy of the allowance for doubtful accounts. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Allscripts does not have any off-balance-sheet credit exposure related to its customers.

Inventories

Inventories, which consist primarily of medications, are carried at the lower of cost or market with cost being determined using the specific identification method.

Fixed Assets

Fixed assets are stated at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Upon asset retirement or other disposition, cost and the related accumulated depreciation are removed from the accounts, and any gain or loss is included in the consolidated statements of operations. Amounts expended for repairs and maintenance are charged to operations as incurred.

Goodwill and Intangible Assets

Goodwill represents the excess of the costs over the fair value of assets of businesses acquired. Allscripts adopted the provisions of FAS No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. FAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with FAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets."

Within six months of the adoption of FAS No. 142, Allscripts performed a transitional test to assess whether there was an indication that goodwill was impaired as of the date of adoption. No indicators of impairment for any reporting unit were identified as a result of the transitional impairment test. Allscripts has selected January 1 as the date of its annual impairment test of goodwill. No indicators of impairment were identified as a result of its annual impairment test performed on January 1, 2005.

Prior to the adoption of FAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally 2 - 8 years and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation.

Intangible assets with estimable useful lives are stated at cost and are amortized using the straight-line method over the remaining estimated economic lives of those assets, including the period being reported on.

Long-Lived Assets and Long-Lived Assets to Be Disposed Of

As of January 1, 2002, Allscripts adopted FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). This Statement requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The estimated fair value of assets is determined by estimating the present value of future cash flows expected to be generated by the asset. Prior to the adoption of FAS 144, Allscripts accounted for long-lived assets in accordance with the provisions of FAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

Investment in Promissory Note and Minority Interest

Allscripts holds an investment in Medem, Inc. totaling $1,550 as of December 31, 2004. The investment has been accounted for under the cost basis of accounting and is recorded in other assets on the consolidated balance sheet. The investment consists of a $1,050 note receivable from and a $500 minority interest in Medem. The fair value of the investment is dependent upon the actual financial performance of Medem, its market value, and the volatility inherent in the external markets for this type of investment. In assessing potential impairment of the investment, we consider these factors, as well as the forecasted financial performance of Medem, liquidation preference value of the stock that we hold, and estimated potential for investment recovery. If any of these factors indicate that the investment has become other-than-temporarily impaired, we may have to record an impairment charge. During the year ended December 31, 2004, we performed an impairment test of the investment in Medem and determined that it was not impaired.

Software Development Costs

Allscripts capitalizes purchased software that is ready for service and software development costs incurred from the time technological feasibility of the software is established until the software is available for general release in accordance with FAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Upon the establishment of technological feasibility, related software development costs are capitalized. During 2004, 2003 and 2002, development costs in the amount of $3,949, $2,400, and $2,697, respectively, were capitalized. The unamortized balance of capitalized software at the end of 2004 and 2003 was $6,270 and $4,040, respectively. Upon the availability for general release, Allscripts commences amortization of the software on a product by product basis. Amortization is recorded based upon the greater of the ratio that current gross revenues for a product are to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product, including the period being reported on, which is estimated to be three years. Amortization of capitalized software development costs amounted to $1,719, $1,043, and $73 for 2004, 2003 and 2002, respectively. Software development costs of $4,145, $5,050, and $4,318 have been expensed in 2004, 2003 and 2002, respectively.

At each balance sheet date, the unamortized capitalized costs of a software product are compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a software product exceed the net realizable value of that asset is written off. The net realizable value is the estimated future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and customer support required to satisfy Allscripts' responsibility set forth at the time of sale.

Income Taxes

Deferred tax assets or liabilities are established for temporary differences between financial and tax reporting bases and for tax carryforward items and are subsequently adjusted to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established for any deferred tax asset for which realization is not likely.

Manufacturer Rebates

Rebates from suppliers are recorded as a reduction of cost of revenue and are generally recognized on an estimated basis upon shipment of the product to customers. The difference between the amount estimated and the amount actually received is reflected prospectively as a change of estimate. These revisions have not been material.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in stockholders' equity during a period except those resulting from investments by owners and distributions to owners. The components of accumulated other comprehensive income, net of income tax, consist of unrealized gains (losses) on Allscripts marketable securities of $(589) and $102, at December 31, 2004 and 2003, respectively.

The components of comprehensive income (loss) are as follows:

	2004	2003	2002
Net income (loss)	$ 3,108	($4,979)	($15,233)
Other comprehensive income (loss):			
Unrealized gain (loss) on marketable securities, net of tax	(691)	(257)	83
Comprehensive income (loss)	$2,417	($5,236)	($15,150)

Net Income (Loss) Per Share

Allscripts accounts for net income (loss) per share in accordance with FAS No. 128, "Earnings per Share." FAS No. 128 requires the presentation of "basic" income (loss) per share and "diluted" income (loss) per share. Basic income (loss) per share is computed by dividing the net income (loss) 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.

The components of the diluted weighted average common shares outstanding is as follows:

	December 31,		
	2004	2003	2002
Weighted average shares outstanding:			
Basic	38,979	38,621	38,337
Effect of dilutive securities (primarily stock options)	2,613	—	—
Diluted	41,592	38,621	38,337

FAS No. 128 requires all anti-dilutive securities, including stock options, to be excluded from the diluted earnings per share computation. For the year ended December 31, 2003 and 2002, due to Allscripts' net loss, 608 and 607 dilutive securities, respectively, were excluded from the diluted loss per share calculation because their inclusion would have been anti-dilutive.

On September 30, 2004, the EITF reached a consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share" (EITF 04-8). Effective December 15, 2004, contingently convertible debt instruments are subject to the if-converted method under FASB Statement No. 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 Allscripts' Notes were excluded from the basic and diluted earnings per share calculation for the year ended December 31, 2004, as the effects were anti-dilutive.

Fair Value of Financial Instruments

Cash, cash equivalents and marketable securities are reported at their fair values in the balance sheets with the corresponding mark-to-market adjustments recorded as other comprehensive income (loss) in stockholders' equity. The carrying amounts reported in the balance sheets for accounts receivable, investment in Medem, accounts payable, and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. Allscripts' notes receivable from Medem and senior convertible debentures have interest rates that approximate current market values; therefore, the carrying value of both approximate fair value.

Risks and Uncertainties

Financial instruments that potentially subject Allscripts to a concentration of credit risk consist of cash, cash equivalents, marketable securities and trade receivables. Allscripts maintains its cash balances with one major commercial bank and its cash equivalents and marketable securities in interest-bearing, investment-grade securities.

Allscripts sells its products and services to healthcare providers. Credit risk with respect to trade receivables is generally diversified due to the large number of customers and their dispersion across the United States. To reduce credit risk, Allscripts performs ongoing credit evaluations of its customers and their payment histories. In general, Allscripts does not require collateral from its customers, but it does enter into advance deposit, security or guarantee agreements, if appropriate. The provision for doubtful accounts aggregated $451, $558 and $896 in 2004, 2003 and 2002, respectively.

The majority of revenue is derived from customers located in the United States. All long-lived assets are located in the United States. There were no customers that accounted for greater than 10% of revenue or accounts receivable in 2004, 2003 and 2002.

Allscripts purchases a majority of its drug inventories under a contractual agreement with one wholesaler/distributor, which accounted for approximately 88% and 84% of all inventory purchases during 2004 and 2003, respectively. At December 31, 2004 and 2003, approximately 42% and 56%, respectively, of accounts payable are related to these purchases. Allscripts is exposed to risk of loss of revenue and customers in the event of a breach of contract or nonperformance by this wholesaler/distributor resulting in restriction of or diminished availability of inventory. In addition, if Allscripts does not meet certain minimum purchasing requirements with its primary wholesaler/distributor, it may increase the prices that Allscripts pays under the agreement, in which case Allscripts would have the option to terminate the agreement. However, Allscripts does not anticipate that a breach of contract or any nonperformance will occur. In the event it does, Allscripts believes that there are several other available wholesalers/distributors, which would be able to provide the necessary inventories to Allscripts on a timely basis such that no material loss would occur. As of December 31, 2004, Allscripts believes that it has met all minimum purchase requirements as defined in the agreement with its primary wholesaler/distributor.

Allscripts provides its software customers with a standard product warranty beginning with live use of the software. If a software product is found to have a material defect that causes the product not to operate in accordance with the software specifications, Allscripts will deliver any necessary alterations to the customer.

Allscripts is a defendant in various multi-defendant lawsuits involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine. The majority of these suits were filed in state courts in Texas

beginning in August 1999. The plaintiffs in these cases claim injury as a result of ingesting a combination of these weight-loss drugs. In each of these suits, Allscripts is one of many defendants, including manufacturers and other distributors of these drugs. Allscripts does not believe it has any significant liability incident to the distribution or repackaging of these drugs, and it has tendered defense of these lawsuits to its insurance carrier for handling. In addition, Allscripts has been indemnified by the primary manufacturer of the drugs at issue in these cases. Allscripts believes that it is unlikely that it is responsible for the distribution of the drugs at issue in many of these cases. The lawsuits are in various stages of litigation, and it is too early to determine what, if any, liability Allscripts will have with respect to the claims made in these lawsuits. If Allscripts' insurance coverage and its indemnity from the drug manufacturer is inadequate to satisfy any resulting liability, Allscripts will have to defend these lawsuits and be responsible for the damages, if any, that Allscripts suffers as a result of these lawsuits.

Use of Estimates

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year end and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Reclassifications

Certain amounts reported in prior years have been reclassified from what was previously reported to conform to the current year's presentation.

Recent Accounting Pronouncements

In March 2004, the EITF reached a final consensus on Issue 03-6, "Participating Securities and the Two Class Method under FASB Statement 128." Issue 03-6 requires the two-class method of calculating earnings per share for companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends of the company. Because Allscripts does not have any other issued securities other than common stock, this change in computational methods has no impact on Allscripts' earnings per share for any period in fiscal 2004 or any prior period.

In January 2003, the FASB initially issued interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 was revised in December 2003 when the FASB issued Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46(R)). FIN 46(R) is an interpretation of ARB No. 51, "Consolidated Financial Statements," that replaces FIN 46 and revises the requirements for consolidation by business enterprises of variable interest entities with specific characteristics. The new consolidation requirements related to variable interest entities are required to be adopted no later than the first reporting period that ends after March 15, 2004, which is as of March 31, 2004 for Allscripts. Allscripts adopted the provision of FIN 46(R) as of January 1, 2004 and adoption did not have an effect on its results of operations or financial position.

In November 2004, the EITF reached a final conclusion on Issue 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share." EITF Issue 04-8 addresses when the dilutive effect of contingently convertible debt with a market price trigger should be included in diluted earnings per share calculations. The EITF's conclusion is that the market price trigger should be ignored and that these securities should be treated as convertible securities and included in diluted earnings per share regardless of whether the conversion contingencies have been met. Because Allscripts' Notes are contingently convertible debt with a market price trigger, Allscripts will be required to comply with EITF Issue 04-8 beginning in the first quarter of fiscal 2005. Had the conclusions of EITF Issue 04-8 been effective as of December 31, 2004, there would have been no change in Allscripts' reported earnings per share because the effect of Allscripts' Notes was antidilutive.

In November 2004, the FASB issued FAS No 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing" (ARB 43), to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that "under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges…" This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criteria of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, which is calendar year 2006 for Allscripts, and is applied prospectively. Allscripts does not expect the adoption of this standard to have a material affect on its consolidated financial statements.

In December 2004, the FASB issued FAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." This Statement addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB 29, "Accounting for Nonmonetary Transactions" and replaces it with an exception for exchanges that do not have commercial substance. This Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, which is third quarter 2005 for Allscripts. This Statement shall be applied prospectively. Allscripts does not expect the adoption of this standard to have a material affect on its consolidated financial statements.

3. Business Combinations

On August 1, 2003, Allscripts acquired 100% of the outstanding common stock of AIC, a provider of document imaging, scanning and management software for the medical industry. Allscripts acquired AIC to include its electronic document imaging and scanning solutions into its suite of clinical software product offerings. AIC's results are included in Allscripts' results of operations from the date of acquisition. The purchase price of $18,981 included the issuance of 474 common stock options in exchange for existing AIC common stock options, with a value of $1,242, and the granting of an additional 431 common stock options, with a value of $1,000. A purchase price holdback obligation totaling $1,800 was established to provide for certain contingencies and financial items, as defined. The holdback period is for eighteen months following the closing of the acquisition and the total liability of $1,800 has been recorded as of December 31, 2004. We expect to release the full amount of the holdback in the first quarter of 2005. At the date of acquisition, the estimated fair value of the total assets and liabilities acquired was approximately $21,050 and $2,069, respectively. Allscripts recorded $10,269 and $8,869 of goodwill and intangible assets, respectively, in connection with the acquisition. The $10,269 of goodwill, which was subsequently increased by $10 in 2004 due to additional acquisition obligations, was assigned to the software and related services segment. Of that total amount, none is expected to be deductible for tax purposes. Of the $8,869 of acquired intangible assets, $2,700 was assigned to registered trademarks, which are not subject to amortization. The remaining $6,169 has a weighted-average useful life of approximately 6 years. The intangible assets that make up that amount include proprietary technology of $4,600 (5-year weighted-average useful life), customer relationships of $1,520 (10-year weighted-average useful life) and employment agreements of $49 (2-year weighted-average useful life). A deferred tax liability of $3,454, based on the tax effects of non-goodwill intangibles related to the acquisition, was recorded.

On August 8, 2003, Allscripts acquired certain assets and assumed certain liabilities of RxCentric, a provider of technology-enabled sales and marketing solutions for the pharmaceutical industry. Allscripts acquired certain assets of RxCentric to expand its client base in the United States and in the international market for its information services business. The results of operations related to the acquisition of certain assets of RxCentric are included in Allscripts' results of operations from the date of acquisition. At the date of acquisition,

the estimated fair value of the total assets acquired and liabilities assumed was approximately $4,177 and $2,731, respectively. Allscripts recorded $3,283 and $60 of goodwill and intangible assets, respectively, in connection with the acquisition. The $3,283 of goodwill was assigned to the information services segment. Of that total amount, $3,283 is expected to be deductible for tax purposes. The original purchase price related to the acquisition was $1,446 in cash, subject to adjustment upon obtaining a third-party valuation of the intangible assets. A purchase price holdback obligation totaling $400 was established to provide for certain contingencies and financial items, as defined.

The third party valuation of the intangible assets was completed in first quarter 2004, and Allscripts allocated $440 of the original purchase price to an intangible asset for customer relationships, which will be amortized over a ten-year weighted average useful life. The finalization of the RxCentric asset valuation also resulted in $108 of additional goodwill. In addition, the $400 holdback obligation was settled for $150 in the second quarter of 2004, which resulted in a $250 purchase price adjustment to goodwill.

The following unaudited pro forma financial information presents the combined results of operations of Allscripts, AIC and RxCentric as if the acquisitions had occurred as of January 1, 2002. The unaudited pro forma financial information is not necessarily indicative of what consolidated results of operations actually would have been had the acquisitions been completed at the date indicated. In addition, the unaudited pro forma financial information does not purport to project the future results of operations of the combined company.

	Year Ended December 31,	
	2003	2002
Revenue	$90,514	$84,848
Net loss	($6,250)	($21,413)
Net loss per share – basic and diluted	($0.16)	($0.56)

4. Fixed Assets

Fixed assets as of December 31 consist of the following:

	Estimated Useful Life	2004	2003
Office furniture and equipment	2-7 years	$12,833	$12,151
Service assets	2 years	9,071	9,138
Production and warehouse equipment	5-7 years	1,368	1,324
Leasehold improvements	4-7 years	3,057	2,093
Website development costs	2 years	397	397
		26,726	25,103
Less accumulated depreciation and amortization		(24,360)	(22,866)
Fixed assets, net		$2,366	$2,237

Depreciation and amortization expense was $1,492, $2,974 and $4,861 in 2004, 2003 and 2002, respectively.

5. Goodwill, Intangible Assets and Impairments

The following table summarizes goodwill and intangible assets by asset class. Goodwill at December 31, 2004, consisted of $594, $10,418, and $2,701 related to the prepackaged medications, software and related services, and information services segments, respectively. Goodwill at December 31, 2003, consisted of $594, $10,408, and $3,283 related to the prepackaged medications and software and related services, respectively. In

August 2003 Allscripts acquired AIC and RxCentric (see Note 3). The AIC acquisition resulted in $10,279 of goodwill and $8,869 of intangible assets, of which $2,700 was assigned to registered trademarks, which are not subject to amortization. The RxCentric acquisition resulted in $2,701 of goodwill and $500 of intangible assets.

Goodwill and intangible assets as of December 31 consist of the following:

	2004			2003		
	Gross Assets	Accumulated Amortization	Intangible Assets, net	Gross Assets	Accumulated Amortization	Intangible Assets, net
Amortized intangible assets						
Proprietary technology	$4,600	$1,249	$3,351	$4,600	$314	$4,286
Customer relationships	2,020	303	1,717	1,580	87	1,493
Strategic agreements	4,745	1,680	3,065	4,745	1,150	3,595
	11,365	3,232	8,133	10,925	1,551	9,374
Unamortized intangible assets						
Registered trademarks	2,700	—	2,700	2,700	—	2,700
Goodwill	13,713	—	13,713	14,285	—	14,285
	16,413	—	16,413	16,985	—	16,985
Total goodwill and intangible assets	$27,778	$3,232	$24,546	$27,910	$1,551	$26,359

The proprietary technology and customer base intangible assets are being amortized over their average useful lives of approximately 5 years and 10 years, respectively. The strategic agreements are being amortized over their contractual life, which is 10 years. Amortization expense related to the above intangible assets was $1,682 and $915 for the year ended December 31, 2004 and 2003, respectively. Allscripts estimates that the amortization expense will be approximately $1,725 per year for the next five years.

In 2001, Allscripts acquired ChannelHealth, Inc. (“ChannelHealth”) and accounted for the business combination under the purchase method of accounting. During 2002, Allscripts received a payment of $125 related to guarantees as part of the original terms of the acquisition.

6. Investment in Promissory Note Receivable and Minority Interest

On August 18, 2004, Allscripts entered into a Convertible Secured Promissory Note Purchase Agreement with Medem and certain other investors (the “Co-Investors”). Under the Note Purchase Agreement, Allscripts acquired a convertible secured promissory note in the aggregate principal amount of $2,100 (“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, or the filing of a registration statement with the SEC for public offering of any class of securities of Medem (a “Liquidity Event”), and (ii) August 12, 2007. In addition, upon consummation of a Liquidity Event, each Promissory Note holder will receive, as a premium in addition to the repayment of the outstanding principal and interest due and payable under such Promissory Note, an amount equal to two (2) times the maximum amount that Medem may borrow under such Promissory Note. As of December 31, 2004, Allscripts funded $1,050 under the Note Purchase Agreement. The note receivable balance is included in other assets on the consolidated balance sheet as of December 31, 2004.

At any time on or prior to maturity, Allscripts may convert all (but not a portion) of the Promissory Note into 2,100 shares of Medem’s Series A Common Stock. Borrowings under the Promissory Note are not permitted (i) more than once per calendar quarter, (ii) later than the forty-fifth day after the end of the previous calendar quarter, and (iii) in amounts greater than $750 per calendar quarter, without the prior written consent of Allscripts and the majority of the Co-Investors. In addition, in order for Medem to make borrowings under the Promissory Note, Medem must have satisfied certain financial targets.

In connection with the transaction described above, Allscripts entered into a 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. In addition, pursuant to the terms of such agreement, Allscripts has a three-year option to acquire an additional interest in Medem for an aggregate price of $600. If Allscripts converts all of its Promissory Note and exercises its option to purchase an additional interest in Medem, it will own approximately 50.4% of the voting capital of Medem and 40.5% of all of the capital stock of Medem. The total investment in the Promissory Note and Share Purchase Agreement totaling $1,550 as of December 31, 2004 has been accounted for under the cost basis of accounting and is recorded in other assets on the consolidated balance sheets.

7. 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.

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 of certain specified corporate transactions, as defined. 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 is 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. Long-term debt outstanding as of December 31, 2004 consists solely of the principal balance on the notes of $82,500. No payments of principal are due until 2024. As of December 31, 2003, Allscripts did not have any long-term debt.

	December 31,	
	2004	2003
3.5% senior convertible debt	$82,500	$ —
Current portion of long-term debt	—	—
Total long-term debt	$82,500	$ —

Interest expense for the year ended December 31, 2004 consists of $1,404 in interest expense related to the Notes and $313 in debt issuance cost amortization. No interest expense was recorded during 2003.

8. Income Taxes

There was no current or deferred federal or state income tax provision for the years ended December 31, 2004 and 2003.

The U.S. federal statutory tax rate differs from Allscripts' effective tax rate for the years ended December 31 as follows:

	2004	2003	2002
U.S. federal statutory tax rate	34.0%	(34.0)%	(34.0)%
Items affecting federal income tax rate:			
State taxes, net of federal benefit	5.5	(4.5)	(4.1)
Expired net operating loss	26.8	32.3	5.7
Other, net	4.0	3.2	(0.4)
Valuation allowance	(70.3)	3.0	32.8
Effective income tax rate	— %	— %	— %

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities for the years ended December 31 are as follows:

	2004	2003
Deferred tax assets:		
Net operating loss carryforwards	$58,096	$58,993
Allowance for doubtful accounts	1,172	1,218
Restructuring	—	40
Fixed assets	599	1,101
Inventory	282	351
Goodwill amortization	449	517
Acquisition costs	24	96
Capital loss carryforwards	248	201
Unrealized losses on marketable securities	230	—
Other	108	19
Total deferred tax assets	61,208	62,536
Less: valuation allowance	(54,630)	(56,165)
Net deferred tax assets	6,578	6,371
Deferred tax liabilities:		
Acquired intangibles	4,136	4,810
Software development costs	2,442	1,521
Unrealized gains on marketable securities	—	40
Total deferred tax liabilities	6,578	6,371
Net deferred tax assets (liabilities)	$—	$—

The valuation allowance as of December 31, 2004 and 2003 was $54,630 and $56,165, respectively. The net change in the total valuation allowance for the years ended December 31, 2004 and 2003 was a decrease of $1,535 and $2,128, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

At December 31, 2004, Allscripts had operating loss carryforwards available for federal income tax reporting purposes of approximately $149,156. The operating loss carryforwards expire between 2005 and 2023. Allscripts' ability to utilize these operating loss carryforwards to offset future taxable income is dependent on a

variety of factors, including possible limitations pursuant to Internal Revenue Code Section (IRC) 382. IRC 382 imposes an annual limitation on the future utilization of operating loss carryforwards due to changes in ownership resulting from the issuance of common stock, stock options, warrants and convertible preferred stock. At December 31, 2004, Allscripts had a capital loss carryforward of $636, which expires in 2006.

9. Common Stock

In connection with the private placement of the Notes, Allscripts received approximately $79,612 in net proceeds from the offering after deduction for underwriting fees and professional expenses. Allscripts used approximately $11,250 of the net proceeds to repurchase approximately 1,399 shares of its common stock, which are held in treasury.

In 2002, Allscripts sold a strategic partner 379 shares of Allscripts common stock at an average fair market value for the fifteen days preceding the transaction date for a purchase price of $1,982, net of related expenses of $18.

10. Stock Option Plans

At December 31, 2004, options to purchase 9,393 shares of common stock were authorized under Allscripts' Amended and Restated 1993 Stock Incentive Plan ("1993 Plan"). The exercise price for shares under this plan is determined by Allscripts' Board of Directors at the date of grant. All options must be exercised within ten years of the date of grant. The plan provides for exercise of options by payment of cash or mature shares of common stock. Options vest on various schedules, primarily on a straight-line basis over three and four year periods from the date of grant, and in certain circumstances upon a change in control. During 2004, and also in 2002, shareholders approved an increase of 1,000 shares of common stock to be available for issuance under the 1993 Plan. At December 31, 2004, Allscripts had reserved 7,276 shares of common stock for issuance upon exercise of outstanding options and 101 shares of common stock were available for future issuance under the 1993 Plan.

In January 2001, the Board of Directors approved the Allscripts Healthcare Solutions, Inc. 2001 Nonstatutory Stock Option Plan ("2001 Plan"). The plan provides for the issuance of up to 4,500 options to purchase common stock. The plan is administered by the Compensation Committee of the Board of Directors. The plan covers employees of Allscripts or its affiliates (excluding, however, any employee who is also serving as an officer or director of Allscripts or an affiliate) designated by the Board or the Compensation Committee as being eligible under the plan and non-employee consultants or contractors. The exercise price, term and vesting period of options issued under this plan are determined by the Compensation Committee at the time of grant. During 2003, the Board of Directors approved an increase of 1,500 shares of common stock to be available for issuance under the 2001 Plan. At December 31, 2004, Allscripts had reserved 3,600 shares of common stock for issuance upon exercise of outstanding options and 3 shares of common stock were available for future issuance under the 2001 Plan.

Total stock-based compensation expense included in selling, general and administrative expenses related to options issued to employees was $0, $78, and $329 for the years ended 2004, 2003, and 2002, respectively.

Option activity for the three years ended December 31, 2004 was as follows:

	Options Outstanding	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Balance at December 31, 2001	6,571	$12.76	2,033	$14.84
Options granted	2,597	$3.01		
Options exercised	(28)	$0.88		
Options forfeited	(1,907)	$17.63		
Balance at December 31, 2002	7,233	$8.02	2,749	$11.37
Options granted	4,588	$3.09		
Options exercised	(623)	$0.89		
Options forfeited	(895)	$9.45		
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	(518)	$8.08		
Balance at December 31, 2004	10,876	$6.84	6,503	7.86

Information regarding options outstanding at December 31, 2004 was as follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$0.06 - $2.77	1,555	6.81	$1.88	984	$1.43
$2.80 - $3.04	340	6.67	$3.00	289	$2.99
$3.15 - $3.15	1,222	7.04	$3.15	754	$3.15
$3.19 - $3.45	46	7.26	$3.39	38	$3.43
$3.53 – $3.53	2,724	8.48	$3.53	1,268	$3.53
$3.65 - $5.62	59	7.85	$4.04	30	$4.07
$5.63 - $5.63	1,140	6.16	$5.63	827	$5.63
$6.40 – $7.73	1,430	8.22	$7.22	651	$6.98
$8.69 - $10.67	1,276	9.79	$10.27	578	$10.06
$11.25 - $79.75	1,084	4.93	$24.65	1,084	$24.65
	10,876	7.54	$6.84	6,503	$7.86

11. Commitments

Allscripts conducts its operations from leased premises under several operating leases. Total rent expense from operations was $1,326, $1,144 and $940 in 2004, 2003 and 2002, respectively.

Future minimum rental payments at December 31, 2004 under non-cancelable operating leases are as follows:

	Year Ending December 31,
2005	$ 1,515
2006	1,220
2007	1,173
2008	1,034
2009	696
2010 and thereafter	1,765
Total future minimum lease payments	$ 7,403

12. Savings Plan

Allscripts' employees who meet certain eligibility requirements can participate in Allscripts' 401(k) Savings and Investment Plan. Under the plan, Allscripts may, at its discretion, match the employee contributions. Allscripts recorded expense related to its matching contributions in 2004, 2003, and 2002 of $377, $347, and $424, respectively.

13. 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.

Allscripts currently organizes its business around groups of similar products, which results in three reportable segments being reported: prepackaged medications; software and related services; and information services. The software and related services segment derives its revenue from the sale and installation of clinical software that provides point-of-care decision support solutions, document imaging solutions, and the resale of related hardware. The information services segment primarily derives its revenue from the sale of interactive physician education sessions. The prepackaged medications segment derives its revenue from the repackaging, sale, and distribution of medications and medical supplies. 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 evaluation of the financial performance of Allscripts' operating segments.

	2004	2003	2002
Revenue:			
Prepackaged medications	$44,733	$46,172	$49,298
Software and related services	44,121	28,366	19,921
Information services	11,916	11,303	9,583
Total revenue	$100,770	$85,841	$78,802
Income (loss) from operations:			
Prepackaged medications	$7,275	$8,044	$7,587
Software and related services	8,633	(3,350)	(11,548)
Information services	2,254	3,510	2,555
Unallocated corporate	(14,919)	(14,541)	(16,275)
Income (loss) from operations	3,243	(6,337)	(17,681)
Interest income, interest expense, and other income (expense), net	(135)	1,358	2,448
Income (loss) from operations before income taxes	$3,108	($4,979)	($15,233)

14. Restructuring and Other Charges

During 2004, Allscripts completed its restructuring plan that was announced in July 2001, which included workforce and overhead reductions and the termination of certain unprofitable strategic agreements and customer relationships. The restructuring plan contemplated the termination of approximately 232 employees across all

business functions, of which all were terminated as of December 31, 2003. During 2002, an additional charge of $186 was recorded to satisfy the estimated remaining obligations as part of the workforce reduction. In addition, Allscripts recorded a charge in 2002 of $414 for severance costs in connection with the departure of the former chief financial officer.

A summary of the activity and balances of the restructuring and other charges reserve accounts is outlined as follows:

		Activity During the Year Ended December 31, 2002				Activity During the Year Ended December 31, 2003				Activity During the Year Ended December 31, 2004		
	Balance at Dec. 31, 2001	Accrual	Write-offs	Cash Payments	Balance at Dec. 31, 2002	Accrual	Write-offs	Cash Payments	Balance at Dec. 31, 2003	Write-offs	Cash Payments	Balance at Dec. 31, 2004
Restructuring												
Workforce reduction	$1,693	$186	$—	($1,400)	$479	$—	$—	($479)	$—	$—	$—	$—
Termination of agreements	658	—	—	(347)	311	—	—	(300)	11	(11)	—	—
Subtotal	2,351	186	—	(1,747)	790	—	—	(779)	11	(11)	—	—
Other Charges												
Termination of unprofitable customer contracts	640	—	(640)	—	—	—	—	—	—	—	—	—
Executive departure	—	414	—	(64)	350	—	—	(257)	93	—	(93)	—
Total	$2,991	$600	($640)	($1,811)	$1,140	$—	$—	($1,036)	$104	($11)	($93)	$—

15. Supplemental Cash Flow Information

	2004	2003	2002
Noncash investing and financing activities:			
In connection with the acquisition of AIC, issuance of 474 common stock replacement options and issuance of 431 common stock options with a fair value of approximately $1,242 and $1,000, respectively.	$—	$2,242	$—

16. Related Party Transactions

As a result of Allscripts' acquisition of ChannelHealth from IDX, IDX owned approximately 19% of the common stock of Allscripts at December 31, 2004. As part of a 10-year strategic alliance agreement beginning on January 9, 2001, Allscripts is obligated to pay IDX a percentage of Allscripts' revenue related to IDX customers. During 2004, 2003 and 2002, Allscripts paid IDX $1,829, $980, and $894, respectively, pursuant to this agreement. In addition, Allscripts leases office space from IDX. During 2004, 2003 and 2002, Allscripts paid $359, $465, and $514, respectively, to IDX for the lease of the office space. In conjunction with Allscripts' July 2001 restructuring plan, a payment of $300 was made to IDX during 2003 to terminate a lease expansion obligation. At December 31, 2004 and 2003, Allscripts had accounts payable and accruals of $502 and $646 due to IDX, respectively. During 2004 and 2003, Allscripts paid IDX approximately $12 and $27 for other marketing and consulting services. Allscripts also paid $140 in 2004 to IDX for billings and collections on behalf of IDX related to a certain customer contract to which IDX and Allscripts were parties. This transaction did not have any impact on Allscripts' results of operations for the year ended December 31, 2004. Allscripts had accounts receivable from IDX totaling $707 and $163 at December 31, 2004 and 2003, respectively. These receivables

resulted from certain customer contracts to which Allscripts and IDX were joint parties. During 2002, IDX paid Allscripts $125 to satisfy a guarantee pursuant to the ChannelHealth acquisition agreement and $676 related to marketing sponsorships and miscellaneous expense reimbursements.

One of Allscripts' directors was a partner in the law firm of Akin, Gump, Strauss, Hauer and Feld, LLP. The firm was retained by Allscripts in 2003 and 2002 to provide legal services. Expenditures related to services provided by the firm were $5 and $14 in 2003 and 2002, respectively. The firm did not provide legal services for the Company in 2004. During 2004, the director became a partner at the law firm of Gardner Carton & Douglas, LLP, which has represented Allscripts in various matters since 1987. Expenditures related to services provided to Allscripts by this law firm were $57 for the year ended December 31, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Allscripts Healthcare Solutions, Inc.:

We have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements of Allscripts Healthcare Solutions, Inc. and Subsidiaries referred to in our report dated March 4, 2005, which is included in Item 8 of this form. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Valuation and Qualifying Accounts included in Schedule II are presented for purposes of additional analysis and are not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 4, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SUPPLEMENTAL SCHEDULE II

To the Board of Directors and Stockholders
Allscripts Healthcare Solutions, Inc.:

Under date of February 19, 2004, we reported on the consolidated balance sheet of Allscripts Healthcare Solutions, Inc. and subsidiaries (the Company) as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years ended December 31, 2003 and 2002. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule of valuation and qualifying accounts. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Chicago, Illinois
February 19, 2004

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Schedule II

	Beginning Balance	Charged to Expense	Deductions	Ending Balance
Allowance for accounts receivable				
Year ended December 31, 2004	$3,128	451	(569)	$3,010
Year ended December 31, 2003	$3,876	558	(1,306)	$3,128
Year ended December 31, 2002	$6,203	896	(3,223)	$3,876

	Beginning Balance	Charged to Expense	Adjustments	Ending Balance
Valuation allowance for deferred tax assets				
Year ended December 31, 2004	$56,165	—	(1,535)	$54,630
Year ended December 31, 2003	$58,293	—	(2,128)	$56,165
Year ended December 31, 2002	$53,293	5,000	—	$58,293

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On April 16, 2004, we announced that we appointed Grant Thornton LLP as our independent accountants, replacing KPMG LLP. The decision to change auditors was not caused by any disagreement between Allscripts and KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which is included herein.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Allscripts Healthcare Solutions, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A that Allscripts Healthcare Solutions, Inc. and subsidiaries (the Company) (a Delaware Corporation) maintained effective internal control over financial reporting as of December 31, 2004, based on Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Allscripts Healthcare Solutions, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on COSO. Also in our opinion, Allscripts Healthcare Solutions, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Allscripts Healthcare Solutions, Inc. as of December 31, 2004 and the related statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year then ended and our report dated March 4, 2005 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 4, 2005

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding directors, executive officers and other key employees is included under the captions “Election of Directors”, “Meetings and Committees of the Board of Directors”, “Executive Officers”, and “Governance” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

Information regarding Section 16(a) reporting compliance is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

We have adopted a code of conduct that applies to our directors, officers and employees, including our principal executive officer, principal accounting officer, controller, or persons performing similar functions (the “senior financial officers”). A copy of this code of conduct is posted on the investor relations portion of our website at www.allscripts.com. In the event the code of conduct is revised, or any waiver is granted under the code of conduct with respect to any director, executive officer or senior financial officer, notice of such revision or waiver will be posted on our website.

Item 11. Executive Compensation

Information regarding executive and director compensation is included under the captions “Executive Compensation” and “Director Compensation” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

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

Information regarding security ownership is included under the caption “Ownership of Allscripts Common Stock” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

Information regarding securities authorized for issuance under equity compensation plans is included under the caption “Equity Compensation Plan Information” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related party transactions is included under the caption “Certain Relationships and Related Party Transactions” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is under the caption “Independent Public Accountants” in Allscripts’ proxy statement for the 2005 Annual Meeting of Stockholders and is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following consolidated financial statements of Allscripts Healthcare Solutions, Inc. and its subsidiaries are included in Part II of this report:

(a)(2) Financial Statement Schedules

(a)(3) List of Exhibits

See Index to Exhibits

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 4, 2005.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

By: /s/ GLEN E. TULLMAN

Glen E. Tullman
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 4, 2005 by the following persons on behalf of the Registrant in the capacities indicated.

Signature	Title
/s/ GLEN E. TULLMAN **Glen E. Tullman**	Chairman, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ WILLIAM J. DAVIS **William J. Davis**	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ BERNARD GOLDSTEIN **Bernard Goldstein**	Director
/s/ PHILIP D. GREEN **Philip D. Green**	Director
/s/ M. FAZLE HUSAIN **M. Fazle Husain**	Director
/s/ MICHAEL J. KLUGER **Michael J. Kluger**	Director
/s/ ROBERT A. COMPTON **Robert A. Compton**	Director
/s/ M.L. GAMACHE **M.L. Gamache**	Director

INDEX TO EXHIBITS

Exhibit Number	Description	Reference
2.1	Agreement and Plan of Merger, dated as of July 13, 2000, by and among Allscripts Holding, Inc., Allscripts, Inc., Bursar Acquisition, Inc., Bursar Acquisition No. 2, Inc., IDX Systems Corporation and ChannelHealth Incorporated.	Incorporated herein by reference from the Allscripts, Inc. Current Report on Form 8-K filed on July 27, 2000
2.2	First Amendment to Agreement and Plan of Merger, entered into as of November 29, 2000, by and among Allscripts Holding, Inc., Allscripts, Inc., Bursar Acquisition, Inc., Bursar Acquisition No. 2, Inc., IDX Systems Corporation and ChannelHealth Incorporated.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
3.1	Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
3.4	Bylaws of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 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 from 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 from the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on July 15, 2004

Exhibit Number	Description	Reference
10.1†	Amendment and Restatement of Amended and Restated 1993 Stock Incentive Plan.	Incorporated herein by reference from Appendix B to the Allscripts Healthcare Solutions, Inc. Proxy Statement relating to its 2004 Annual Meeting of Stockholders, filed on April 29, 2004
10.2	Twelfth Restated Registration Agreement, dated as of June 18, 1999, by and among Allscripts, Inc., those Holders of Allscripts, Inc. Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred, Series F Preferred and Series G Preferred listed in Schedule I attached thereto, the Holders of the Extension Guaranty Warrants listed in Schedule II thereto, the Holders of the 1996 Extension Guaranty Warrants listed in Schedule II thereto, those Holders of Common listed in Schedule III thereto, the Holders of Series H Warrants and H Unit Common listed in Schedule IV thereto, the Holders of Extension Series H Warrants listed in Schedule IV thereto, the Holders of I Unit Common listed in Schedule V thereto and the Holders of Debenture Warrants listed in Schedule VI thereto.	Incorporated herein by reference from the Allscripts, Inc. Registration Statement on Form S-1 as part of Amendment No. 2 filed on June 29, 1999 (SEC file no. 333-78431)
10.3	Industrial Building Lease, dated April 30, 1997, between G2 Limited Partnership and Allscripts, Inc.	Incorporated herein by reference from the Allscripts, Inc. Registration Statement on Form S-1 filed on May 14, 1999 (SEC file no. 333-78431)
10.4	Lease Agreement between American National Bank and Trust Company of Chicago, as Trustee, and Allscripts, Inc., dated September 1996, as amended December 31, 1999.	Incorporated herein by reference from the Allscripts, Inc. Registration Statement on Form S-1 as part of Amendment No. 1 filed on February 18, 2000 (SEC file no. 333-95521)
10.5	Second Amendment, dated September 30, 2002, to Lease Agreement between LaSalle Bank National Association (previously American National Bank and Trust Company of Chicago), as Trustee, and Allscripts, Inc. dated September 1996, as amended December 31, 1999.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2002
10.6	Lease Agreement, dated as of September 17, 2004, between Allscripts, LLC and Merchandise Mart L.L.C.	Filed herewith
10.7†	Employment Agreement, dated as of July 8, 2002, between Allscripts Healthcare Solutions, Inc. and Glen E. Tullman.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.8†	Amendment, effective January 1, 2005, to Employment Agreement dated as of July 8, 2002 between Allscripts, LLC and Glen E. Tullman.	Filed herewith

Exhibit Number	Description	Reference
10.9†	Employment Agreement, dated as of July 8, 2002, between Allscripts Healthcare Solutions, Inc. and Lee A. Shapiro.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.10†	Amendment, effective January 1, 2005, to Employment Agreement dated as of July 8, 2002 between Allscripts, LLC and Lee A. Shapiro.	Filed herewith
10.11†	Employment Agreement, dated as of October 8, 2002, between Allscripts Healthcare Solutions, Inc. and William J. Davis.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2002
10.12†	Amendment, effective January 1, 2005, to Employment Agreement dated as of October 8, 2002 between Allscripts, LLC and William J. Davis.	Filed herewith
10.13†	Employment Agreement, dated as of July 8, 2002, between Allscripts Healthcare Solutions, Inc. and Joseph E. Carey.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.14†	Amendment, effective January 1, 2005, to Employment Agreement dated as of July 8, 2002 between Allscripts, LLC and Joseph E. Carey.	Filed herewith
10.15†	Employment Agreement, dated as of July 8, 2002, between Allscripts Healthcare Solutions, Inc. and Scott Leisher.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.16†	Amendment, effective January 1, 2005, to Employment Agreement dated as of July 8, 2002 between Allscripts, LLC and Scott Leisher.	Filed herewith
10.17†	Form of Allscripts Healthcare Solutions, Inc. Nonqualified Incentive Stock Option Agreement.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Current Report on Form 8-K filed on January 5, 2005
10.18	Stock Rights and Restrictions Agreement by and between Allscripts Healthcare Solutions, Inc. and IDX Systems Corporation, dated as of January 8, 2001.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.19	Strategic Alliance Agreement by and between Allscripts Healthcare Solutions, Inc. and IDX Systems Corporation, dated as of January 8, 2001.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.20	Asset Purchase Agreement, dated as of July 13, 2000, by and between ChannelHealth Incorporated and IDX Systems Corporation.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)

Exhibit Number	Description	Reference
10.21	Amended and Restated Cross License and Software Maintenance Agreement by and between IDX Systems Corporation and ChannelHealth Incorporated, dated January 8, 2001.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.22*	Pharmacy Services Prime Vendor Agreement for Allscripts Healthcare Solutions, Inc., dated as of February 1, 2002, between Allscripts Healthcare Solutions, Inc. and Bergen Bruswig Drug Co.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
10.23	First Amendment, dated July 31, 2002, among Allscripts Healthcare Solutions, Inc., Bergen Brunswig Drug Company doing business as Amerisource Bergen and Allscripts, Inc., to Pharmacy Services Prime Vendor Agreement, dated as of February 1, 2002, between Allscripts Healthcare Solutions, Inc. and Bergen Brunswig Drug Company doing business as Amerisource Bergen.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
10.24†	Allscripts Healthcare Solutions, Inc. 2001 Non-Statutory Stock Option Plan.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2002
10.25	Fourth amendment, dated May 20, 2004, to Lease Agreement between Lincoln Commerce Center Properties, LLC, as Landlord, and Allscripts, LLC, as Tenant.	Filed herewith
10.26	Amendment, Employment Agreement, dated as of October 8, 2002, between Allscripts Healthcare Solutions, Inc. and William J. Davis.	Filed herewith
12.1	Statement regarding Computation of Ratio of Earnings to Fixed Charges	Filed herewith
21.1	Subsidiaries	Filed herewith
23.1	Consent of KPMG LLP	Filed herewith
23.2	Consent of Grant Thornton LLP	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

† Indicates management contract or compensatory plan.
* Portions of this exhibit have been omitted pursuant to the Commission's grant of confidential treatment.

Exhibit 10.6

OFFICE LEASE

THE MERCHANDISE MART

CHICAGO, ILLINOIS

TENANT: ALLSCRIPTS, LLC

DATE: SEPTEMBER 17, 2004

OFFICE LEASE

THE MERCHANDISE MART

CHICAGO, ILLINOIS

TENANT: ALLSCRIPTS, LLC

A Delaware limited liability company

TABLE OF CONTENTS

EXHIBITS

THE MERCHANDISE MART

This Lease made as of September 17, 2004 between MERCHANDISE MART L.L.C., a Delaware limited liability company ("Landlord") and ALLSCRIPTS, LLC, a Delaware limited liability company ("Tenant").

Witnesseth

1. DEMISED PREMISES; TERM

(A) Landlord does hereby demise and lease to Tenant, and Tenant accepts that certain space shown hatched on Exhibit "A" which is attached hereto and made a part hereof, consisting of approximately 12,899 rentable square feet (subject to the expansion rights contained in this Lease) and commonly described as a portion of the 20th floor(s) ("Premises") of The Merchandise Mart, a building located at Merchandise Mart Plaza ("Building") constructed on property bounded by West Kinzie Street, North Orleans Street, the Chicago River, and North Wells Street in Chicago, Illinois (such land and Building hereinafter referred to, together with all present and future easements, additions, improvements and other rights appurtenant thereto, as the "Property"), for a term beginning on the Commencement Date (as hereinafter defined and ending on the tenth (10 th) Lease Year (as hereinafter defined) thereafter ("Term"), unless sooner terminated as provided herein, subject to the terms, covenants and agreements herein contained.

The Commencement Date shall be deemed to be the date on which the Landlord's Work (as defined in Article 33 hereof) is Substantially Complete (as hereinafter defined) or would have been Substantially Complete but for Tenant Delay. For purposes of this Lease, "Substantially Complete" or "Substantially Completed" shall mean when all of the following have occurred: (i) the completion of construction and installation of all Landlord's Work as evidenced by a certificate of completion delivered by the architect, subject only to a punch-list of minor uncompleted items of finish or construction the incompletion of which does not materially interfere with Tenant's intended use of the Premises; and (ii) full and exclusive possession of the Premises has been delivered to Tenant in accordance with Article 6 hereof.

For purposes of this Lease, "Lease Year" shall mean a period of twelve (12) consecutive calendar months, the first of which shall commence on the Commencement Date if the Commencement Date shall be the first day of a calendar month, or on the first day of the first calendar month following the Commencement Date if the Commencement Date shall be other than on the first day of a calendar month, and shall end on the last day of the twelfth (12th) calendar month thereafter. Each successive Lease Year shall be a twelve (12) calendar month period commencing on the anniversary of the commencement of the first Lease Year.

(B) Landlord represents to Tenant that the rentable area of the Premises initially demised pursuant to this Article 1 has been computed in accordance with Building Owners and Managers Association International Standard Method for Measuring Floor Area in Office Buildings known as American National Standard ANS1 Z65.1-1996, approved June 27, 1996 by American

National Standards Institute, Inc. ("BOMA Standards") with a 15% add on factor to the usable area. If such measurement under BOMA Standards of the rentable square feet of the Premises is different than the rentable square feet set forth herein, the Tenant and Landlord shall execute an amendment to this Lease setting forth the correct rentable square feet and the corresponding Base Rent, Landlord's Contribution and Tenant's Proportionate Share. In the event that any additional space at any time is to be demised hereunder, it shall be computed in accordance with the same BOMA Standards set forth above.

2. USE. Tenant will use and occupy the Premises for general office purposes and other uses ancillary thereto and for no other use or purpose. Tenant will not use or permit upon the Premises anything that will invalidate any policies of insurance now or hereafter carried on the Building or that will increase the rate of insurance on the Premises or on the Building. Tenant will pay all extra insurance premiums on the Building which may be caused by the use which Tenant shall make of the Premises (other than a use stated in the first sentence hereof). Tenant will not (a) use or permit upon the Premises anything that may be unreasonably dangerous to life or limb; (b) in any manner deface or injure the Building or any part thereof or overload the floors of the Premises; or (c) do anything or permit anything to be done upon the Premises in any way creating a nuisance or disturbing any other tenant in the Building or the occupants of neighboring property. Tenant shall further not carry-on or permit any activities which might: (1) involve the storage, use or disposal of medical or hazardous waste or substances or the creation of an environmental hazard other than such substances in such amounts customarily used in normal office operations; or (2) impair or interfere in any material way with (i) the structure of the Building or the operation of Building systems, (ii) the character, reputation or appearance of the Building as a first-class building, (iii) the furnishing of services (including utilities, telephone and communications) to any portion of the Building, or (iv) the enjoyment by any other occupants of the Building or the benefits of such occupancy (for example, free of unreasonable noise, odors or vibration emanating from the Premises). The Premises shall not be used for the purposes of any so called "office suites", schools, employment agencies, medical treatment facilities, governmental entities, advertising agencies or any retail, showroom or wholesale activities. Tenant will fully and promptly comply, and operate the Premises in conformity, with all applicable federal, state and municipal laws, ordinances, codes, regulations and requirements respecting the Premises or Tenant's use or occupancy thereof, and activities therein provided, however, Tenant shall not be responsible for assuring that the "Building Systems" (as defined in Article 7 hereof), other than any Building Systems constructed or installed by Tenant, are in compliance with such laws, ordinances, codes, regulations or requirements. Tenant will not use the Premises for lodging or sleeping purposes, nor conduct or permit to be conducted on the Premises any business or activity which is contrary to the provisions of this Lease or in violation of any applicable governmental laws, ordinances, codes, regulations and requirements. Tenant shall promptly pay (or appropriately contest if permitted) all taxes of whatever kind which are imposed upon Tenant but which are to be collected by Landlord. Tenant shall at no time sell food on or from the Premises except for vending machines and other meal preparation areas for its employees provided that such machines and areas are installed and operated in accordance with all applicable laws and codes. Tenant shall at no time sell (within the meaning of the Illinois Liquor Control Act, as now or hereafter amended) alcoholic liquor on or from the Premises, provided, however, that Tenant may occasionally give

complimentary food and alcoholic liquor to its employees and guests on the Premises, on condition that Tenant shall comply with all applicable governmental requirements, and on further condition that, prior to the giving of such alcoholic liquor, Tenant shall procure and maintain at all times such beverages are served (or cause to be procured and maintained at all times such beverages are served) in force a policy of or endorsement for host liquor liability insurance, as set forth in Article 25 hereof.

3. BASE RENT.

(A) Tenant shall pay to Landlord an annual base rent ("Base Rent") for the Premises (based on 12,899 rentable square feet) as shown below for each respective period in equal monthly installments during each respective period as follows:

PERIOD	ANNUAL BASE RENT	MONTHLY INSTALLMENT	SQ. FT. RATE
Commencement Date - 12/31/05	$ 296,677.00	$ 24,723.08	$ 23.00
01/01/06 – 12/31/06	$ 304,158.42	$ 25,346.54	$ 23.58
01/01/07 – 12/31/07	$ 311,768.83	$ 25,980.74	$ 24.17
01/01/08 – 12/31/08	$ 319,508.23	$26,625.69	$ 24.77
01/01/09 – 12/31/09	$ 327,505.61	$ 27,292.13	$25.39
01/01/10 – 12/31/10	$ 335,760.97	$ 27,980.08	$ 26.03
01/01/11 – 12/31/11	$ 344,145.32	$ 28,678.78	$26.68
01/01/12 – 12/31/12	$352,787.65	$ 29,398.97	$ 27.35
01/01/13 – 12/31/13	$361,558.97	$ 30,129.91	$ 28.03
01/01/14 – 12/31/14	$ 370,588.27	$ 30,882.36	$ 28.73

Tenant shall pay each installment of Base Rent in advance on the first day of every calendar month of the Term. All such payments shall be made payable to Landlord or Landlord's agent and shall be made at the office of the Building or at such other places and to such other parties as Landlord shall from time to time by written notice appoint. Base Rent shall be payable without any prior demand therefor and without any deductions or set-offs whatsoever. If the Term commences on a day other than the first day of the calendar month, or ends on a day other than the last day of the calendar month, the Base Rent for such fractional month shall be prorated on the basis of 1/365th of the annual Base Rent for each day of such fractional month.

(B) In additional to any rent abatement or credit given to Tenant in accordance with Article 6 below, so long as there has not occurred a Default of this Lease by Tenant that is not cured after any applicable notice and cure period specifically set forth herein, Base Rent shall abate in full for a period of six (6) calendar months commencing on the Commencement Date (the "Abatement Period"). If at any time during the forgoing Abatement Period, there shall occur a Default of the terms of this Lease by Tenant that is not cured after any applicable notice and cure period specifically set forth herein, then in addition to all other rights, powers and remedies afforded to Landlord under this Lease, the abatement of Base Rent provided in the foregoing

sentence shall immediately and without further notice terminate and Landlord shall be entitled to receive and collect and Tenant shall pay all Base Rent which would have been paid during the Abatement Period but for the abatement herein permitted within thirty (30) days of Landlord's written demand.

4. RENT ADJUSTMENTS. Landlord and Tenant agree that the following rent adjustments shall be made with respect to each calendar year of the Term, or portion thereof, including the calendar year in which the Term of this Lease begins and the calendar year in which the Term of this Lease terminates, after the Base Year (which Base Year for purposes of this Lease shall be the calendar year ending on December 31, 2005). For purposes of such rent adjustments, Tenant's Proportionate Share is agreed to be .38 %, calculated by dividing the rentable square feet of the Premises by 3,443,440, which Landlord represents to Tenant to be the number of rentable square feet in the Building.

(A) Tenant shall pay to Landlord as additional rent an amount equal to Tenant's Proportionate Share of the amount by which Real Estate Related Taxes (as hereinafter defined) paid in any calendar year during the Term after the Base Year exceed Real Estate Related Taxes paid in the Base Year. Subject to the provisions below in this Paragraph (A), "Real Estate Related Taxes" shall mean all taxes, assessments, impositions and governmental charges of every kind and nature (but excluding any fines or other penalties) which Landlord shall pay in a calendar year because of or in any way connected with the ownership, leasing, management, and operation of the Building and the Property. The definition of Real Estate Related Taxes is subject to the following:

(1) the amount of ad valorem real and personal property taxes against Landlord's real and personal property to be included in Real Estate Related Taxes shall be the amount shown by the latest available tax bills required to be paid in the calendar year in respect of which Real Estate Related Taxes are being determined, regardless of the year to which such taxes are applicable. The amount of any tax refunds shall be deducted from Real Estate Related Taxes in the calendar year they are received by Landlord;

(2) the amount of special taxes and special assessments to be included shall be limited to the amount of the installments (plus any interest, other than penalty interest, payable thereon) of such special tax or special assessment required to be paid during the calendar year in respect of which Real Estate Related Taxes are being determined;

(3) there shall be excluded from Real Estate Related Taxes all income taxes [except for a specific tax or excise on rents or other income from the Property (or on the value of leases thereon) or a specific gross receipts tax or excise on rents or other income from the Property (or on the value of leases thereon)], excess profit taxes, transfer, sale, gift, franchise, capital stock and inheritance or estate taxes, except to the extent that any such tax is in lieu of, in substitution for, or a supplement to, in whole or in part, any tax included in Real Estate Related Taxes;

(4) Real Estate Related Taxes shall also include, in the calendar year paid, all fees, costs and expenses (including reasonable attorneys' fees) incurred by Landlord in contesting or

attempting to reduce or limit any Real Estate Related Taxes, regardless of whether any such reduction or limitation is obtained.

(B) Tenant shall also pay to Landlord as additional rent an amount equal to Tenant's Proportionate Share of the amount by which Operating Expenses for any calendar year during the Term after the Base Year exceed Operating Expenses for the Base Year. Subject to the provisions below in this Paragraph (B), Operating Expenses shall mean, subject to the limitations contained herein, all expenses, costs and disbursements of every kind and nature paid, incurred, or otherwise arising in respect of a calendar year because of or in connection with the ownership, management, maintenance, repair, and operation of the Building and the Property. The definition of Operating Expenses is subject to the following:

(i) There shall be excluded from Operating Expenses: (1) costs of alterations and other leasehold improvements (including the supervision and administration of such construction) of tenant spaces and costs to relocate other tenants of the Building; (2) depreciation and amortization except as specifically provided herein; (3) principal and interest payments on mortgages, and financing or refinancing expenses; (4) return on investment; (5) Real Estate Related Taxes with the respect to which Tenant is liable for its Proportionate Share pursuant to the preceding paragraph (A) or any other amounts specifically excluded from the definition of "Real Estate Related Taxes" hereunder; (6) the cost of capital improvements, capital repairs or expenditures in the nature of capital replacements, and capital equipment, except as provided in clause (ii) below with respect to capital items resulting in a reduction or limitation in Operating Expenses or required to comply with governmental requirements; (7) ground lease or master lease rents or other costs or payments in connection therewith; (8) real estate brokers' leasing commissions or compensation and any other expenses incurred in leasing space or procuring tenants; (9) any costs for which Landlord has received reimbursement (other than reimbursements from tenants under operating expense escalation clauses), whether from insurance or condemnation proceeds; (10) attorneys' fees, costs and disbursements and other expenses incurred in connection with negotiation of leases with tenants or prospective tenants of the Building or in connection with pursuing collection related lawsuits; (11) expenses in connection with any service or other benefits of a type which are not provided to Tenant but which are provided to another tenant or occupant of the Building; (12) overhead and profit increment paid to parents, subsidiaries or affiliates of Landlord for services on or to the Building to the extent only that the costs of such services exceed the competitive costs of such services were they not so rendered by such parent, subsidiary or affiliate (subject, however, to the proviso in clause (15) below as to management fees); (13) any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord or any affiliate; (14) advertising, marketing and promotional or similar expenditures; (15) management fees to the extent such fees exceed similar costs incurred for non-affiliated management in comparable office buildings in the area; provided, however, that in any event Tenant agrees that there may be included in Operating Expenses a management fee, whether paid to an affiliate of Landlord or an unrelated third party, in an amount up to 3% of gross revenues derived from the Building; (16) wages, salaries or other compensation paid to any employees of Landlord or management agent above the grade of building manager (with respect to the building

manager and lower level employees or agents, same are includable on a pro-rata basis only to the extent such building manager or lower level employee or agent is engaged in servicing the Building, and with respect to any employees which provide services to the Building and to that certain property known as The Apparel Center, Landlord agrees to allocate the costs of such employees on a reasonable basis between the Building and The Apparel Center); (17) the costs of complying with the O & M Program (as defined in Article 8) and the costs incurred in connection with the removal, containment or other remediation of any asbestos containing materials in the Building in accordance with the O & M Program; (18) the costs for furnishing electricity or janitorial services provided to tenants' spaces; (19) the cost of installing, equipping or operating any of the following specialty services at the Property-day care facility, health club, and workout facility or luncheon, athletic or recreational club; (20) the cost of acquiring and/or leasing sculptures, paintings and other objects of art in the Building (provided that all customary, non-extraordinary costs for maintaining and insuring any of the foregoing shall be includable in Operating Expenses); (21) legal, appraisal, accounting and other fees, disbursements, costs and charges and commissions incurred in connection with the sale, transfer, disposition or financing of the Building (or any interest therein or in Landlord or an entity comprising Landlord); and (22) expenses in connection with repairs or other work occasioned by the exercise of the right of eminent domain.

(ii) In the event Landlord makes any capital improvement or any capital repair in the nature of a capital replacement or installs any capital equipment during the Term hereof which (a) results in a reduction or limitation in Operating Expenses, or (b) is required to comply with any governmental rules, regulations or requirements applicable from time to time to the Building or to the Property and enacted or initially enforced after the date of execution hereof, the costs thereof, as amortized in each case on a straight-line basis (unless otherwise required by generally accepted accounting principles) over the useful life of the item so capitalized, may be included in Operating Expenses; provided, however, that the amount paid by Tenant for any calendar year or portion thereof which falls within the Term of this Lease on account of a capital item described in clause (a) above shall not exceed the reduction or limitation in Tenant's Proportionate Share of Operating Expenses with respect to such calendar year or portion thereof by reason of such capital item. If the Building shall not have been fully occupied by tenants at any time during the Base Year or any succeeding calendar year, the Operating Expenses for such year may be equitably adjusted to reflect Landlord's actual costs associated with Operating Expenses which vary with occupancy as though the Building had been fully occupied throughout such year.

(C) INTENTIONALLY OMITTED.

(D) In order to provide for current payments on account of increases in Real Estate Related Taxes and Operating Expenses over the Base Year, Tenant agrees, at Landlord's request, to pay on account to Landlord for each calendar year of the Term or portion thereof following the Base Year, Tenant's share of adjustments due for such ensuing calendar year or portion thereof, as reasonably estimated by Landlord from time to time, but not more than once for each calendar year, in equal monthly installments, commencing on the first day of the month following the month in

which Landlord notifies Tenant of the amount of such estimated rent adjustments or revisions thereto. The installments of estimated rent adjustments payable for each month of the current calendar year prior to the date of receipt of Landlord's estimate shall be due and payable within thirty (30) days after the receipt of such estimate. If, as finally determined (whether in the succeeding calendar year at the time of delivery of the statement provided for in paragraph (E) hereof, or in the current calendar year when the final amount of any portion of Real Estate Related Taxes becomes known to Landlord), such rent adjustments shall be greater than or less than the aggregate of all installments so paid on account to Landlord prior to receipt of an invoice from Landlord, then, subject to the exercise by Tenant of the audit rights pursuant to Paragraphs (G) & (H) below, Tenant upon receipt of such invoice shall pay to Landlord within thirty (30) days immediately following such notification the amount of such underpayment, or, provided Tenant is not in Default hereunder, Landlord shall credit Tenant against the rent next coming due for the amount of such overpayment, or shall refund such amount to Tenant if no further rent is due, as the case may be. It is the intention hereunder to estimate from time to time the amount of increases in Real Estate Related Taxes and Operating Expenses for each calendar year over Real Estate Related Taxes and Operating Expenses for the Base Year, and then to finally determine such rent adjustments at the end of such calendar year or as soon thereafter as possible based upon actual increases in Real Estate Related Taxes and Operating Expenses for such calendar year.

(E) Landlord agrees to keep books and records showing the Real Estate Related Taxes and Operating Expenses in accordance with a system of accounts and accounting practices consistently maintained on a year-to-year basis in compliance with such provisions of this Lease as may affect such accounts. Landlord shall deliver to Tenant within one hundred fifty (150) days after the close of each calendar year (including the calendar year in which this Lease begins and the calendar year in which this Lease terminates), a statement certified by an officer of Landlord's agent substantially in the form of the sample statement attached hereto and made a part hereof as Exhibit B. Failure or delay in delivering any such statement or accompanying invoice, or failure or delay in computing the rent adjustments pursuant to this Article 4, shall not be deemed a waiver by Landlord of its right to deliver such items nor shall any such failure or delay be deemed a release of Tenant's obligations with respect to any such statement or invoice, or constitute a Landlord default hereunder. All rent adjustments payable hereunder shall be made without any deductions or set-offs whatsoever, subject to the other express terms and conditions of this Lease.

(F) The obligation of Tenant with respect to the payment of Base Rent and rent adjustments and Landlord's obligations to credit or reimburse overpayments due hereunder shall survive the expiration or termination of this Lease. Any payment, refund, or credit made pursuant to this Article shall be made without prejudice to any right of Tenant to dispute, or of Landlord to correct, any items as billed pursuant to the provisions hereof. In the event that the Term of this Lease shall have been in effect for less than the full calendar year immediately preceding Tenant's receipt of the invoices provided for in paragraphs (D) and (E) hereof or if the Term shall end on a day other than the last day of a calendar year, the rent adjustment shall be pro rata on a per diem basis. In no event shall any rent adjustment result in a decrease in the Base Rent payable from time to time hereunder.

(G) In the event that Tenant disputes the accuracy of the statement, or the information therein contained, furnished by Landlord to Tenant pursuant to Paragraph (E) above, Tenant may require upon delivering notice in writing within ninety (90) days after submission of such statement that Real Estate Related Taxes and Operating Expenses be audited by an independent, nationally-recognized public accounting firm selected by Tenant and reasonably satisfactory to Landlord, at Tenant's expense, except as hereinafter provided. If as finally determined Tenant's Proportionate Share of actual Operating Expenses and Real Estate Related Taxes for any calendar year is ninety-seven percent (97%) or less of Tenant's Proportionate Share of Operating Expenses and Real Estate Related Taxes as shown in the statement furnished by Landlord to Tenant pursuant to Paragraph (E), Landlord shall promptly pay the reasonable costs and expenses incurred by Tenant in engaging such public accounting firm to render such statement and if it is finally determined that Tenant has overpaid for Tenant's Proportionate Share of Operating Expenses or Real Estate Related Taxes as a result of an error by Landlord, Landlord shall credit to Tenant the amount of such overpayment in the manner provided above in Paragraph (D); provided, further, that if as finally determined Tenant's Proportionate Share of actual Operating Expenses or actual Real Estate Related Taxes for any calendar year is greater than Tenant's Proportionate Share of Operating Expenses or Real Estate Related Taxes as shown in such statement furnished by Landlord to Tenant, Landlord in such instance reserves the right to issue to Tenant an amended invoice adjusting the amount of Tenant's Proportionate Share payable by Tenant to Landlord for such year.

(H) In the event Tenant selects such firm of independent nationally recognized certified public accountants to examine Landlord's books and records for any calendar year, such firm shall promptly conduct such examination in accordance with generally accepted accounting principles consistently applied and, as soon as practicable, render to Landlord and Tenant a report stating such accountants' determination of the Operating Expense and Real Estate Related Tax increase or decrease for such year over the Base Year and, if such determination is inconsistent with Landlord's statement of Operating Expense or Real Estate Related Tax increase furnished to Tenant by Landlord, a reasonably-detailed basis for the determination and explanation of each discrepancy.

Such accountants engaged by Tenant may inspect, audit, review, copy and examine (and Landlord agrees to make the same available for such purposes) in Chicago, Illinois only such of Landlord's books and records as are directly related to, as reasonably determined in accordance with generally accepted accounting standards, the preparation of Landlord's statement of Operating Expense and Real Estate Related Tax increase, and such accountants engaged by Tenant may examine none of Landlord's books and records with respect to any property other than the Property.

Landlord shall not be obligated to permit any individual to examine Landlord's books and records unless such individual and such individual's employer first execute and deliver to Landlord a written acknowledgment affirming that (i) such individual's examinations of Landlord's books and records shall be strictly confidential, and (ii) the results thereof and information derived therefrom or obtained in the course thereof shall not be (a) disclosed by such parties to any person other than such individual's direct supervisor and Tenant's employees who have a position within Tenant requiring them to know such information and other individuals to whom disclosure is required by law or governmental rule or regulation, or (b) used by such parties for any purpose other than in preparing the report to be rendered to Landlord and Tenant; provided, however, such results and

information from the accountant's examination may be used by Landlord and Tenant in enforcing their respective rights and obligations hereunder.

Tenant hereby covenants and agrees with Landlord that any examination of any information relating to Operating Expenses or Real Estate Related Taxes furnished by Landlord to Tenant and any examination of Landlord's books and records by Tenant, its employees or agents shall be confidential in accordance with the provisions of this Paragraph (H) and the results of such examinations and information derived therefrom or obtained in the course thereof shall not be disclosed to anyone or used for any purpose other than as permitted pursuant to this Article 4.

5. CONDITION OF PREMISES. Tenant's entry into possession of all or any part of the Premises after the Commencement Date shall be conclusive evidence as against Tenant that, to Tenant's actual knowledge (without any independent investigation whatsoever), such part of the Premises was in good order and satisfactory condition when Tenant took possession, except for (a) any latent defects in the structure of the Building (including without limitation, the exterior of the Building and exterior windows of the Building), (b) any latent defects in the Landlord's Work constructed in the Premises for Tenant's occupancy or in the electrical, plumbing, HVAC or other common systems of the Building, excluding items of damage caused by Tenant, its agents, contractors and suppliers, and (c) any punchlist items in Landlord's Work identified by Landlord and Tenant prior to Tenant's entering into possession of the Premises for the purpose of conducting its business therein, excluding items of damage caused by Tenant, its agents, contractors and suppliers. Tenant acknowledges that no promise of Landlord or its agents to alter, remodel or improve the Premises or the Building and no representation respecting the condition of the Premises or the Building have been made by Landlord or its agents to Tenant other than as may be contained herein.

6. POSSESSION.

(A) Notwithstanding anything to the contrary contained herein, Landlord shall deliver full and exclusive possession of the Premises to Tenant in accordance with the terms hereof (including, without limitation, with all Landlord's Work in the Premises Substantially Completed) in broom clean condition no later than December 17, 2004, subject to extension on account of Force Majeure events and Tenant Delays ("Possession Date"). In the event that such possession of the Premises is not delivered to Tenant on or before the Possession Date, this Lease shall nevertheless continue in full force and effect; provided, however, that Base Rent shall abate, and Tenant shall receive a credit from Landlord against Base Rent, per diem for each day after the Possession Date that the Commencement Date has not occurred, and if the Commencement Date has not occurred by January 17, 2005, subject to extension on account of Force Majeure or Tenant Delays, Base Rent shall thereafter abate, and Tenant shall receive from Landlord a credit against Base Rent, in an amount equal to two (2) times the daily abatement of Base Rent for each day that the Commencement Date is delayed after January 17, 2005, or such later date as may be extended as a result of any Force Majeure event or Tenant Delay. All abatement and credits noted in this Article 6 shall be in addition to and included in the Abatement Period as defined in Article 3 above. In addition, if the Commencement Date has not occurred by June 1, 2005, or such later date as the case may be due to extensions noted herein, Tenant shall have the

right, exercisable by written notice to Landlord at any time after June 1, 2005, or such later date if extended as provided herein, until the Commencement Date actually occurs, to terminate this Lease effective upon the delivery of such notice to Landlord. For the purpose of this Lease, a "Tenant Delay" shall mean any delay actually caused to the Possession Date as a result of any fault of Tenant or its agents or representatives in connection with any of the obligations of Tenant set forth in this Lease, including, without limitation, any delay in Tenant's approval of any plans or specifications or other materials submitted by Landlord to Tenant for Tenant's review and approval or due to any changes requested by Tenant in the scope or timing of the Landlord's Turn-Key Work. The Possession Date shall be extended one (1) day for each day of such Tenant Delay or delay due to Force Majeure.

(B) Tenant shall have the right to enter into possession of all or any part of the Premises prior to the Commencement Date for the purpose of conducting its business therein, provided it does not interfere with Landlord's Work. All of the covenants and conditions of this Lease (including, without limitation, Landlord's provision of services as described in Article 9 hereof) shall be binding upon the parties hereto in respect of such pre-Term possession the same as if the first day of the Term had been fixed as of the date when Tenant entered into such possession, except that Tenant for the period prior to the Commencement Date, (i) Tenant's obligation to pay any Base Rent shall be prorated to be equal to the applicable Base Rent multiplied times a fraction, the numerator of which is the rentable square footage of the portion of the Premises in possession by Tenant and the denominator of which is the rentable square footage of the Premises; and (ii) Tenant's Proportionate Share for determining any rent adjustments pursuant to Article 4 hereof shall be equal to the rentable square footage of the portion of the Premises in possession by Tenant divided by 3,443,440. Tenant shall be responsible for the payment of all amounts pursuant to Article 9 from and after the date that Tenant so enters into possession.

(C) To the extent that any of the Premises are tenantable as of the Possession Date, Tenant may (but is under no obligation to) occupy such tenable portions in accordance with the terms of this Lease. In addition, if the Premises have not been Substantially Completed by the Possession Date and such failure to Substantially Complete is not the result of a Tenant Delay, if Tenant so requests, Landlord shall locate and lease to Tenant temporary office space in either the Building or 350 North Orleans (collectively known as "Mart Center Complex"), at Landlord's sole discretion, in the amount of approximately 13,000 rentable square feet ("Temporary Space") for the period and amounts set forth herein.

Landlord and Tenant shall meet periodically prior to the Possession Date to assess the progress of the Landlord's Work and its timing. Tenant shall give Landlord not less than 15 days prior written notice of its election to occupy Temporary Space and Landlord and Tenant shall mutually and reasonably work together in order to develop an appropriate schedule to accomplish such occupancy.

In the event Tenant occupies Temporary Space, Tenant shall pay Landlord base rent and rent adjustments for such Temporary Space from the date of occupancy thereof until Tenant vacates such Temporary Space as follows: (i) if and to the extent any Temporary Space is required as a result of a delay which is not a Tenant Delay, all base rent and additional rent shall abate for all

periods; and (ii) if and to the extent any Temporary Space is required by Tenant due to a Tenant Delay, base rent shall be due on such Temporary Space for such period of Tenant's Delay in the annual amount of $25.50 per rentable square foot for Temporary Space (prorated based on the number of days of delay caused by such Tenant Delay). In no event shall Tenant's occupancy of such Temporary Space extend beyond June 1, 2005. Tenant shall pay all costs associated with the movement and installation Tenant's equipment, furniture, trade fixtures, supplies and other personal property, including all telephone and computer installations, into the Temporary Space and from the Temporary Space into the Premises.

7. REPAIRS.

(A) **Tenant Repair Obligations**. Subject to Force Majeure events (as defined below in this Article 7), Tenant will, at its own expense and subject to the provisions of Article 8 of this Lease, keep the "Tenant Responsible Premises" (as defined below in this Article 7) in good repair and tenantable condition at all times during the Term of this Lease, and Tenant shall promptly and adequately repair all damages to the Tenant Responsible Premises (except for reasonable wear and tear and as otherwise provided in Article 25 of this Lease) and replace or repair all damaged or broken interior glass (including any glass demising walls and signs thereon), fixtures and appurtenances. If Tenant does not do so, after (i) thirty (30) days written notice from Landlord for non-emergency-items (or such additional time that is reasonably necessary to complete such repair provided that Tenant commences such repair within such thirty (30) day period and thereafter diligently continues such repair to completion and further provided that Tenant completes such repair within ninety (90) days of the original written notice from Landlord), (ii) twenty-four (24) hours written notice from Landlord (or such lesser time as may be reasonable under the circumstances) for emergency items. Landlord may, but need not, make such repairs or replacements and the amount paid by Landlord for such repairs and replacements (including Landlord's overhead and the cost of general conditions at Landlord's then published rates) shall be deemed additional rent reserved under this Lease due and payable within thirty (30) days after delivery of a bill therefor by Landlord. Landlord may, but shall not be required so to do, enter the Premises at all reasonable times to make such repairs or alterations, improvements and additions, including but not limited to ducts and all other facilities for air conditioning service, as Landlord shall deem necessary or appropriate for the safety, preservation or improvement of the Premises or the Building or any equipment located in the Building, or as Landlord may be required to do by the City of Chicago or by the order or decree of any court or by any other governmental authority, provided that Landlord attempts in good faith to give Tenant forty-eight (48) hours prior notice (except in cases of an emergency in which instance Landlord shall provide notice as soon as possible, together with an explanation of the nature of the emergency and Landlord's activities within the Premises) of any such repairs, alterations, improvements and additions in the Premises, and (except in cases of an emergency) so long as the performance of such work during ordinary business hours does not unreasonably interfere with Tenant's access to or ability to conduct its business in the Premises. Notwithstanding anything to the contrary set forth herein, Tenant shall have no responsibility to maintain or repair any (i) items which Landlord is specifically obligated to maintain or repair pursuant to this Lease, or (ii) any items for which Landlord is reimbursed for such costs under any insurance policies (or should have been reimbursed had Landlord

properly maintained, or complied with the terms or conditions of, any such policy required pursuant to Article 24 hereof).

(B) **Landlord Repair Rights**. In the event Landlord or its agents or contractors shall elect or be required, in accordance with, and subject to the requirement that Landlord not unreasonably interfere with Tenant's access to or ability to conduct business in the Premises, (subject to the provisions of the preceding Paragraph A or any other provisions of this Lease), to make repairs, alterations, improvements or additions to the Premises or the Building or any equipment located in the Building, Landlord shall be allowed to take into and upon the Premises all material that may be required to make such repairs, alterations, improvements or additions and, during the continuance of any of said work, to temporarily close doors, entryways, public space and corridors in the Building and to interrupt or temporarily suspend Building services and facilities without being deemed or held guilty of eviction of Tenant or for damages to Tenant's property, business or person, and the rent reserved herein shall in no way abate while said repairs, alterations, improvements or additions are being made, and Tenant shall not be entitled to maintain any set-off or counterclaim for damages of any kind against Landlord by reason thereof, all subject to the provisions below. Landlord may, at its option, make all repairs, alterations, improvements and additions in and about the Building and the Premises during ordinary business hours, so long as (except in case of an emergency) the performance of such work during ordinary business hours does not materially interfere with Tenant's access to the Premises or Tenant's ability to conduct its business in the Premises, and if such work during ordinary business hours is not of an emergency nature and does not materially interfere with Tenant's access to the Premises or Tenant's ability to conduct its business in the Premises and Tenant nonetheless desires to have the same done during any other hours Tenant shall pay for all overtime (at scheduled rates) and additional expenses of Landlord resulting therefrom.

(C) **Tenant Responsible Premises**. As used herein, "Tenant Responsible Premises" shall mean all alterations, additions and improvements in and to the interior of the Premises at any time or from time to time existing, whether constructed by Landlord or Tenant, including but not limited to all items of work constructed in the Premises in preparation for Tenant's initial occupancy thereof, but excluding all "Building Systems" (as defined below in this Article 7).

(D) **Landlord's Repair Obligations**. Subject to Force Majeure events, Landlord shall keep in good working order and repair and make necessary replacement to consistent with the current condition of the Building (and the cost thereof may be included in Operating Expenses, except as otherwise provided in Subparagraph B(ii) of Article 4 hereof) the following items ("Building Systems"): (i) the exterior and roof of the Building and the structural components (including, without limitation, the foundations, exterior walls and exterior windows), and other common areas of the Building serving the Premises; (ii) the mechanical, electrical (including without limitation, the wiring therefor), plumbing, heating, ventilation, and air cooling systems and other systems serving the Premises, including components of said systems outside and up to the perimeter of the Premises, but, other than as set forth in clauses (iii) and (iv), excluding any related systems, fixtures and equipment located within the Premises which are not a part of Landlord's Work; (iii) HVAC ducts in the Premises, but excluding variable air volume (VAV) boxes, reheats,

in-duct fans and other equipment and devices in or attached to the ducts; and (iv) the Building sprinkler system serving the Premises, including piping up to the Premises, but excluding any of the foregoing systems, fixtures and equipment within the Premises installed by Tenant which are supplemental to the Building's standard system and located solely within, and exclusively serving, the Premises.

(E) **Force Majeure Events.** As used herein, "Force Majeure" events shall mean fire, casualty, emergencies, lockouts, strikes, labor disputes, war, governmental action, acts of God, labor or material shortages, transportation delays, and other causes beyond the reasonable control of the respective party which prevent the required performance of such party hereunder, of which the respective party has notified the other party within ten (10) days after the notifying party becomes aware of the occurrence of such a cause, but excluding insufficiency of funds or inability to obtain financing or disbursement of loans, and then only during the continuance of such events.

Any liability of Tenant or Landlord for the performance of their respective obligations under this Article 7 shall be subject to the provisions of Articles 11 and 25 hereof.

8. ALTERATIONS. Tenant shall not, without the prior written consent of Landlord in each instance obtained, make any repairs, replacements, alterations, improvements or additions to the Premises which affect the Building structure, Building Systems, common areas or other tenants' premises (collectively, "Major Improvements"). Landlord's consent shall not be required for any repairs, replacements, alterations, improvements or additions to the Premises which are not Major Improvements (collectively, "Minor Improvements" and together with Major Improvements, collectively, referred to herein as "Improvements") provided that Tenant shall give Landlord reasonable prior notice of all Minor Improvements during the Term. Landlord's consent for any Major Improvements shall not be unreasonably withheld, conditioned or delayed, but such consent may be conditioned upon such reasonable requirements regarding such Major Improvements as Landlord deems appropriate, including without limitation, the submission of detailed plans and specifications (if appropriate given the nature of the subject work), and such Major Improvements shall be of a quality equal to or better than the standards of the Building. Landlord shall use its good faith, reasonable efforts to respond to any written request by Tenant for consent within ten (10) business days after Landlord's receipt thereof. At the time that Landlord gives its consent to any such Major Improvements or Landlord receives notice of any Minor Improvements, Landlord may designate any items which are atypical for standard office uses or require unusual expense for removal (such as, but not limited to, satellite dish equipment, generator equipment, staircases, specialized cabling, specialized flooring, flooring or installations which have Tenant's name or logo and/or vaults) as items which Landlord reserves the right to require Tenant to remove upon the expiration of the Term or upon any termination of this Lease or Tenant's right to possession hereunder. When Tenant requests Landlord's consent for any Improvements hereunder, it must include in the written request that Landlord specifically designate which Improvements Landlord will require Tenant to remove upon termination or expiration of this Lease, and include in such written request in "**bold face type**" that if Landlord fails to so specifically designate that an Improvement must be removed by Tenant, Landlord shall be deemed to have automatically and irrevocably waived its right to require any such removal. Neither approval of any plans and specifications nor supervision of any improvement work by Landlord or its agents shall constitute a

representation or warranty by Landlord or its agents that such plans or work either (i) are complete or suitable for their intended purpose, or (ii) comply with applicable laws, ordinances, codes and regulations, it being expressly agreed by Tenant that Landlord assumes no responsibility or liability whatsoever to Tenant or to any other person or entity for such completeness, suitability or compliance. All such Improvements shall be done at Tenant's expense by employees or agents of Landlord or by contractors hired by Landlord or by contractors hired by Tenant (which contractors shall be subject to Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed and which contractors must be reputable and financially responsible, maintain proper insurance and shall preserve labor harmony), and, only in the event Tenant requests Landlord to perform any such work or construction management or supervisory services on behalf of Tenant in connection therewith, Tenant shall pay to Landlord or its agent a charge for coordination, general conditions, overhead and other costs and expenses incurred as a result or services requested by Tenant or required by Landlord in connection with such work, to the extent such costs and expenses are not included in Operating Expenses. The billing for such charges shall be based upon the then published rates of the Building.

In the event that Tenant uses its own contractors for the Improvements Landlord may, without limitation, require Tenant to: (a) comply with such construction standards or procedures as may be applicable from time to time for construction activities in the Building; (b) give assurances reasonably satisfactory to Landlord that the construction of such Improvements will not jeopardize labor harmony; (c) submit satisfactory insurance certificates; (d) obtain all necessary permits; (e) furnish satisfactory security for the payment of all costs to be incurred in connection with any Major Improvements; and (f) upon completing any such Improvements, furnish Landlord with contractors' affidavits and full and final waivers of lien and receipted bills covering all labor and material expended and used and furnish Landlord with final construction drawings (marked up as constructed) for any such Improvements.

There are some asbestos-containing materials ("ACM") in some areas of the Building. Landlord has adopted and implemented an abatement and operations and maintenance program ("O & M Program"), a copy of which is available for review by Tenant, which sets forth certain procedures to be followed in connection with any Improvements to be made in the Building, in order to prevent disturbance to any ACM that may be encountered. Tenant acknowledges, and hereby expressly agrees to cause its agents, employees and contractors to comply at all times with, the O & M Program (as amended from time to time, except to the extent such O & M Program is inconsistent with applicable laws, ordinances or other legal requirements). A summary of the O & M Program in effect as of the date hereof is attached hereto as Exhibit C and made a part hereof. . Landlord agrees to deliver to Tenant written notice of any amendments made from time to time to the O & M Program affecting Tenant or its operations; provided that the delivery of such summary and such notices of amendments shall not relieve Tenant of its responsibility to comply and to cause its agents, employees and contractors to comply with the full provisions of the O & M Program. Tenant shall not be responsible for any failure by it or its contractors to comply with any amendment to the O & M Program of which Landlord has not delivered written notice to Tenant.

Landlord agrees that Tenant shall not be liable for any costs and expenses incurred in connection with the removal, containment or other remediation of any ACM in the Building, so

long as such ACM were not placed in the Building by Tenant or by Tenant's employees, agents, contractors, invitees or anyone claiming through Tenant.

Landlord and Tenant acknowledge that the Americans With Disabilities Act of 1990 (42 U.S.C. § 12-101 et seq.) and regulations and guidelines promulgated thereunder, as all of the same may be amended and supplemented from time to time (collectively "ADA"), establish requirements for business operations, accessibility and barrier removal, and that such requirements may or may not apply to the Premises and the Building depending on, among other things, whether: (1) Tenant's business is deemed a "public accommodation" or "commercial facility", (2) such requirements are "readily achievable", and (3) a given alteration affects a "primary function area" or triggers "path of travel" requirements. The parties hereby agree that (a) Landlord shall be responsible for ADA Title III compliance in the common areas of the Building, except as provided below, (b) Tenant shall be responsible for ADA Title III compliance in the Premises, including direct access into the Premises and any leasehold improvements or other work to be performed in the Premises under or in connection with this Lease other than the Landlord's Work, and (c) Landlord may perform, or require that Tenant perform, and Tenant shall be responsible for the cost of, ADA Title III "path of travel" requirements triggered by alterations in the Premises performed by Tenant other than the Landlord's Work to be performed in connection with Tenant's initial occupancy of the Premises. Tenant shall be solely responsible for requirements under Title I of the ADA relating to Tenant's employees.

All Improvements shall comply with all insurance requirements set forth herein and with all applicable governmental laws, requirements, codes, ordinances and regulations. All Improvements shall be constructed in a good and workmanlike manner and only good grades of material shall be used. Except for the negligence or willful misconduct of Landlord, its members or their respective agents employees, representatives or contractors, Tenant shall protect, defend, indemnify and hold Landlord, the Building and the Property, Landlord's members, and their respective officers, directors, managers, beneficiaries, partners, members, agents and employees harmless from any and all liabilities of every kind and description which may arise out of or in connection with such Improvements performed by Tenant or its agents, employees or contractors.

All Improvements made by Landlord or Tenant in or upon the Premises whether temporary or permanent in character, including but not limited to wall coverings, carpeting and other floor covering, lighting installations, built-in or attached shelving, cabinetry, and mirrors, shall become Landlord's property and shall remain upon the Premises at the termination of this Lease by lapse of time or otherwise without compensation to Tenant [excepting only Tenant's movable office furniture, trade fixtures (other than attached or installed lighting equipment), office equipment and other items of non-affixed personal property; provided, however, that, subject to the terms of Article 33 herein relating to Skylights (as hereinafter defined) Landlord shall have the right to require Tenant to remove at Tenant's sole cost and expense in accordance with the provisions of Article 16 of this Lease: such Improvements which are atypical for standard office uses or require unusual expense for removal (such as, but not limited to, satellite dish equipment, generator equipment, staircases, specialized flooring, flooring or installations which have Tenant's name or logo and/or vaults); and other items which are timely and properly identified by Landlord in accordance with the terms of this Lease; and any and all hazardous materials installed or placed in

the Premises by Tenant; any equipment installed by Tenant on the roof of the Building or elsewhere outside the Premises, and all cabling and wiring and other facilities located outside the Premises (including cabling to the roof and/or cabling located in the risers and/or shafts) and serving or intended to serve the Premises; and any items which Landlord previously designated for possible removal, at the time Landlord granted its consent to such Major Improvements and/or received notice of such Minor Improvements, as provided above in this Article 8.

All cabling, wiring and equipment installed at any time by or on behalf of Tenant outside of the Premises on the Property (which installation shall in all cases be subject to Landlord's reasonable consent), shall be operated and maintained at Tenant's sole cost and expense in a manner which does not unreasonably disturb improvements on the Property or the operation thereof or unreasonably interfere with the operations of, or services provided to, tenants in the Building. Any such installation, operation, and maintenance shall be in accordance with any reasonable rules and regulations established by the Landlord from time to time, shall be at Tenant's sole risk, and shall be subject to the Tenant insurance requirements of Article 25 hereof and the provisions of Article 11 hereof. All such cabling, wiring and equipment shall be appropriately identified by color code, identification plate and/or other means reasonably specified by Landlord at the time of installation if initially installed by Tenant, and Tenant shall provide Landlord with plans and drawings locating and identifying such items in such detail as may be reasonably requested by Landlord.

9. SERVICES. Landlord shall provide the following services (which services shall be comparable in quality to those existing today) on all days during the Term of this Lease excepting Sundays and holidays (which holidays are New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day and may, in addition, include any other holiday from time to time observed by Tenant), unless otherwise stated:

(A) Adequate passenger elevator service will be furnished daily as determined by Landlord, including the services of at least one (1) passenger elevator at all times (including holidays), subject to Force Majeure.

(B) Conditioned air for heating, ventilating and cooling when necessary for normal comfort in the Premises will be provided from 8:00 A.M. to 6:00 P.M. Monday through Friday, and 8:00 A.M. and 1:00 P.M. Saturday upon request in accordance with the standards for the Premises. Whenever heat-generating machines, equipment or lighting fixtures installed by Tenant or excessive electrical usage by Tenant affects (except such machinery, equipment and lighting fixtures which are reasonable and ordinary in general office use whose loads are within the applicable Building criteria or such items have been approved by Landlord) the temperature otherwise maintained by Landlord in the Premises, Landlord shall be relieved of responsibility for maintaining air conditioning in the Premises in accordance with said standards, and in such event Landlord further reserves the right at its option to (1) require Tenant to discontinue use of such heat-generating machines, equipment, lighting fixtures or excessive electrical load, or (2) install supplementary air conditioning units in the Premises, the cost, installation, operation and maintenance of which shall be paid by Tenant to Landlord at such rates as Landlord charges from time to time to all other tenants of the Building. Tenant agrees that at all times it will cooperate

with Landlord and abide by all regulations and requirements which Landlord may reasonably prescribe for the proper functioning of the ventilating and air conditioning systems.

Landlord agrees that it shall make available to Tenant after-hours HVAC service at the expense of Tenant at times other than those identified above in this Paragraph (B), provided that if Tenant desires any such service on Mondays through Fridays (holidays described above excepted), it shall request such service from Landlord on or before 4:00 p.m. on the day for which such service is requested, and in the event Tenant desires such service on Saturdays or Sundays or holidays (as described above), it shall request such service from Landlord no later than 4:00 p.m. on Friday (for service on Saturday or Sunday) and by 4:00 p.m. on the business day preceding any holiday (for service on such holiday). Tenant shall pay for all such after-hours HVAC services at Landlord's published rates in effect in the Building from time to time which are generally charged to other tenants of the Building. Tenant may request such after-hours HVAC service by zone (determined by the respective areas served by separate fan rooms); and if another tenant has also specifically requested such after-hours service in the same zone during the same time period as requested by Tenant, Landlord shall reasonably allocate the charge for such service between Tenant and such other tenants so requesting such service.

(C) Electricity will be furnished at all times (including holidays) so long as Landlord shall furnish electric current for light or power to all tenants of the Building during the Term of this Lease. Tenant agrees to purchase such electric current from Landlord only, and to pay Landlord for such electric current consumed (measured by a meter or meters installed by Landlord) at the charges from time to time customary in the Building, but in no event higher than the then current tariffed rates on file with the Illinois Commerce Commission applicable for Landlord's resale services. The charges shall be based upon the amount of current consumed and also the maximum demand of Tenant, both measured and computed in the manner from time to time customary in the Building. Notwithstanding the foregoing, the total charges shall not exceed the total charges which Commonwealth Edison Company (or the then current supplier of electricity to the Building) would charge Tenant as a commercial office user in downtown Chicago having the same level of demand for electricity if Tenant purchased electricity directly from Commonwealth Edison Company (or the then current supplier of electricity to the Building). Landlord, upon giving Tenant not less than thirty (30) days' prior written notice, may discontinue supplying electric current to Tenant upon connecting the Premises with another source of supply of electric current. Tenant shall not install or operate any electrical equipment or fixtures that overload lines servicing the Premises or which exceed the loads indicated in Exhibit E.

If, in accordance with the foregoing, Landlord elects to discontinue supplying electric current, then Landlord, unless prohibited by law, shall have the exclusive right at any time and from time to time during the Term to contract for service from a company or companies providing electricity service [each such different company is hereinafter referred to as an "Electric Service Provider" ("ESP")] for the Premises, the Building and the Building's common areas and appurtenances. Tenant shall at all times cooperate fully with Landlord and ESP and, as reasonably necessary or requested, shall allow Landlord and ESP reasonable access to the Premises' and/or the Building's electric lines, feeders, risers, wiring, cabling and any other machinery or apparatus within the Premises. To the extent, if any, that Landlord is prohibited by

law from selecting the utility company of its choice and Tenant is specifically and expressly allowed by law (otherwise, Tenant shall not be allowed to make such selection) to select an ESP other than the utility company selected by Landlord, Tenant shall: (a) reimburse Landlord for Landlord's reasonable out-of-pocket, third party cost(s) of repairing any and all damage to the Premises, the Building and the Building's common areas and appurtenances caused directly or indirectly by Tenant's selected ESP or its personnel or equipment, and Landlord hereby reserves the right to charge Tenant as additional rent for such cost(s) if such reimbursement for same is not promptly made; and (b) indemnify and hold Landlord harmless from and against any and all claims, demands, costs, expenses (including attorney's fees), liens and causes of action in any way whatsoever arising out of, or in any manner whatsoever relating to, actions or inactions by Tenant's selected ESP.

(D) Janitorial services, as specified on Exhibit "D" attached hereto and made a part hereof, shall be provided at the sole cost and expense of Landlord, except that all increases in the costs of providing such janitorial services to Tenant in any calendar year in excess of the actual annualized cost per rentable square foot of providing such services in calendar year 2005 shall be paid by Tenant on an estimated basis in monthly installments subject to final year-end adjustment in the same manner as provided for the payment of Operating Expense adjustments in Article 4 hereof. Tenant may from time to time procure directly from Landlord's cleaning contractor at Tenant's expense such additional cleaning services as are desired by Tenant.

(E) Lobby Building directory identification of a reasonable number of listings for Tenant (not to exceed ten (10) listings).

(F) Utilization of the Building's conference facility at the then current price charged by Landlord to tenants of the Building for such facility, subject to the terms of Article 40 below.

(G) Additional services (including after-hour cooling and ventilation and the provision of water) may be provided on terms and conditions as may be mutually agreed upon by Landlord and Tenant, at rates that are generally charged to other tenants of the Building. Subject to Force Majeure, Tenant and its employees and invitees shall have access to the Premises twenty-four (24) hours a day, seven (7) days a week, fifty-two (52) weeks a year. At times other than normal business hours (i.e. 8 A.M. to 6 P.M. Monday through Friday) access shall be available through limited entrances and subject to reasonable regulations and procedures in place in the Building from time to time, including the furnishing of proper employee identification or authorization and the registering of a person's name, room number and time of entry and departure in a register furnished by Landlord and placed in the lobby of the Building.

Tenant shall apply to the applicable utility company or municipality for gas, telephone and all other utility services, other than those provided by Landlord, required by Tenant for use in the Premises in accordance with Article 2 hereof and, subject to Article 8 hereof, Tenant shall be responsible for the connection and installation of same.

All charges for any services shall be deemed rent reserved under this Lease and shall be due and payable at the same time as the installment of rent with which they are billed, or, if billed

separately, shall be due and payable within thirty (30) days after Tenant's receipt of such billing. In the event Tenant shall fail to make payment for such services, subject to applicable notice and grace periods hereunder. Landlord may, in addition to all other remedies which Landlord may have for the non-payment of rent and without notice to Tenant, discontinue any or all such services (including, without limitation, electric current for light and power in the Premises), and such discontinuance shall not be held or pleaded as an eviction or as a disturbance in any manner whatsoever of Tenant's possession, or relieve Tenant from the payment of rent when due, or vary or change any other provision of this Lease or render Landlord liable for damages of any kind whatsoever.

Tenant agrees that, to the extent permitted by law, neither Landlord nor its members nor any of their respective officers, directors, managers, shareholders, members, partners, beneficiaries, employees or agents shall be liable to Tenant, or any of Tenant's employees, agents, customers or invitees or anyone claiming through, by or under Tenant, for any damages, injuries, losses, expenses, claims or causes of action, because of any interruption, diminution, delay or discontinuance at any time in the furnishing of any of the above services (including access to the Premises as described above in this Article 9) and/or the interruption of any services being provided to the Premises by other vendors when such interruption, diminution, delay or discontinuance is occasioned, in whole or in part, by any strike, lockout or other labor trouble, by inability to secure gas, electricity, water or other fuel at the Building, after reasonable effort to do so, by any accident or casualty whatsoever, by act or Default of Tenant hereunder for which written notice was given, if possible, to Tenant not less than three (3) business days after Landlord acquires knowledge that such Default caused such interruption (and after Tenant's failure to cure such Default within three (3) business days after such notice), or by any other cause beyond Landlord's reasonable control; nor shall any such interruption, diminution, delay or discontinuance be deemed an eviction or disturbance of Tenant's use or possession of the Premises or any part thereof; nor shall any such interruption, diminution, delay or discontinuance relieve Tenant from full performance of Tenant's obligations under this Lease, except as otherwise expressly provided herein.

Notwithstanding the foregoing, or anything else to the contrary contained herein (including in Article (7B)), in the event that (i) any interruption or discontinuance of services (including access to the Premises as described above) required to be provided pursuant to this Article 9 which was within the reasonable control of Landlord to prevent continues beyond three (3) consecutive business days after written notice to Landlord and materially and adversely affects Tenant's access to or ability to conduct its customary business in a material portion of the Premises or (ii) the performance by Landlord of repairs in the Building that are not the responsibility of Tenant materially and adversely affects Tenant's access to, or ability to conduct its customary business in a material portion of the Premises and continues beyond three (3) consecutive business days after written notice to Landlord, and on account of such interruption or discontinuance described in clause (i) or such performance of repairs described in clause (ii), Tenant ceases doing business in the Premises (or a material portion thereof), Base Rent shall abate as of the first day Tenant ceased doing business (as to the Premises or as to such material portion thereof, as the case may be) and for so long as Tenant remains unable to gain access to, or to conduct its customary business in the Premises (or such material portion thereof). Landlord agrees to use reasonable efforts to restore

such interrupted or discontinued service or to complete such repairs, as the case may be, as soon as reasonably practicable.

10. COVENANT AGAINST LIENS. Tenant agrees to pay when due for any work done or materials furnished by or on behalf of Tenant in or about the Premises or to all or any part of the Property and nothing in this Lease contained shall authorize or empower Tenant to do any act which shall in any way encumber the title of Landlord in and to the Premises or to the Property, nor shall the interest or estate of Landlord therein be in any way subject to any claims by way of lien or encumbrance whether claimed by operation of law or by virtue of any express or implied contract of Tenant, and any claim to a lien upon the Premises or the Property arising from any act or omission of Tenant shall accrue only against Tenant and shall in all respects be subordinate to the title and rights of Landlord to the Premises and the Property. Tenant covenants and agrees not to suffer or permit any lien or encumbrance to be placed against the Premises, the Building or the Property with respect to work or services claimed to have been performed for or materials claimed to have been furnished to Tenant or the Premises and, in case of any such lien or encumbrance attaching, or claim thereof being asserted, Tenant agrees to cause it to be immediately released and removed of record, or to provide security as hereinafter provided. If Tenant has not removed any such lien or encumbrance or provided Landlord with reasonably acceptable title insurance or a title indemnity bond or such other security as is reasonably satisfactory to Landlord within twenty-five (25) days after notice to Tenant by Landlord, such failure shall constitute a Default hereunder and, in addition to all other remedies available herein, Landlord may, but shall not be obligated to, pay the amount necessary to remove the lien or encumbrance, without being responsible for making any investigation as to the validity thereof, and the amount so paid together with all costs and expenses, including reasonable attorneys' fees, incurred in connection therewith shall be deemed additional rent reserved under this Lease due and payable forthwith. Notwithstanding the above, subject to the terms and conditions described below in this grammatical paragraph, Tenant shall have the right to contest in good faith any lien claim or encumbrance provided Tenant promptly pays any amount due and removes such lien or encumbrance upon conclusion of such contest and Tenant shall not be in Default hereunder, and then Landlord shall not have the right, at Tenant's expense, to pay or remove such lien or encumbrance. It is a further condition of Tenant's right to contest any lien claim or encumbrance as set forth above that (a) upon Landlord's request, Tenant takes such action as may be necessary to cause Landlord's title company to insure title to the Property without any exception pertaining to any such lien claim or encumbrance, and (b) Tenant proceeds with reasonable diligence to contest such lien claim or encumbrance and any delay in the payment or discharge of such lien claim or encumbrance does not pose any material threat to the safety, security, protection, maintenance, occupancy, use or operation of all or any portion of the Property and does not subject the Property or any portion thereof to the risk of imminent sale, forfeiture, foreclosure or loss (including, without limitation, loss of appeal rights related to such contest).

11. WAIVER OF CLAIMS. Subject to the provisions of Article 25 hereof and any other applicable provisions of this Lease, Tenant agrees that Landlord, Landlord's members and their respective officers, directors, managers, shareholders, partners, members, beneficiaries, agents, and employees shall not be liable for (subject, however, to the provisions of Article 9 as to the abatement of rent for interruption of services and any other applicable provisions of this

Lease) any direct or consequential damage (including, without limitation, damages claimed for actual or constructive eviction) either to person or property sustained by Tenant or any other person, due to the Building, the Property, or any part thereof or any appurtenances thereof becoming out of repair, or due to the happening of any accident in or about the Building or the Property, or due to any act or neglect of any tenant or occupant of the Building or the Property, or any other person, except to the extent that any such damage is caused by the negligence or willful misconduct of Landlord, its members or their respective agents, contractors, servants or employees. The foregoing provision, subject in all events to the provisions of Article 25 and any other applicable provision of this Lease, as stated above, shall apply particularly (but not exclusively) to damage caused by fire, explosion, water, snow, frost, steam, sewerage, illuminating gas, sewer gas or odors, or by the bursting or leaking of pipes, plumbing fixtures, or sprinkler system; without distinction, except as expressly provided above, as to the person whose act or neglect was responsible for the damage and whether the damage was due to any of the causes specifically enumerated above or to some other cause of an entirely different kind. Tenant further agrees that all personal property upon the Premises or brought or caused to be brought within the Building by Tenant shall be at the risk of Tenant only and that Landlord shall not be liable for any damage thereto or any theft thereof, except to the extent caused by the negligence or willful misconduct of Landlord, its members or their respective agents, contractors, servants or employees, subject in all events, however, to the provisions of Article 25. Subject to the provisions of Article 25 hereof and any other applicable provision of this Lease, and except for the negligence or willful misconduct of Landlord, its members or their respective agents, contractors, servants or employees, Tenant shall protect, indemnify, defend and save Landlord, its members and their respective officers, directors, managers, shareholders, partners, members, beneficiaries, agents, and employees harmless from and against any and all liabilities, damages, costs, claims, obligations and expenses arising out of or in connection with Tenant's use or occupancy of the Premises or Tenant's activities in or about the Building or the Property, or arising out of (and to the extent caused by) any willful misconduct or negligence of Tenant or its agents, contractors, servants, employees or invitees.

Subject to the provisions of Article 25 hereof, Landlord agrees that Tenant and its officers, directors, agents and employees shall not be liable to Landlord for any direct or indirect damage to the Building Systems or to person or property sustained by Landlord or any other person, caused by any portion of the Tenant Responsible Premises or any of Tenant's fixtures or equipment becoming out of repair or due to the happening of any accident in or about the Premises, except to the extent that any such damage is caused by the negligence or intentional acts of Tenant or Tenant's agents, contractors, servants or employees.

12. ASSIGNMENT AND SUBLETTING. Subject to the terms and conditions of the penultimate grammatical paragraph of this Article 12, Tenant shall not, without the prior written consent of Landlord, which consent shall not be unreasonably conditioned, withheld or delayed, (a) assign, convey, mortgage, pledge or otherwise transfer this Lease, or any part thereof, or any interest hereunder; (b) permit any assignment of Tenant's interest in this Lease, or any part thereof, by operation of law; (c) sublet the Premises or any part thereof; or (d) permit the use of the Premises, or any part thereof, by any parties other than Tenant, its agents and employees. Tenant shall, by notice in writing, advise Landlord of its desire from, on and after a

stated date (which shall not be less than thirty (30) days after the date of Tenant's notice), to assign this Lease, or any part thereof, or to sublet any part or all of the Premises for the balance or any part of the Term. Tenant's notice shall: state the name and address of the proposed assignee or subtenant; provide financial information in reasonable detail concerning the proposed assignee or subtenant (subject to Tenant's obligation to provide such additional information concerning the financial condition of the proposed assignee or subtenant as may be reasonably requested by Landlord); include all of the material terms of the proposed assignment or sublease (whether contained in such assignment or sublease or in separate agreements) and state the consideration therefor and financial aspects thereof. In the event Tenant delivers such notices, Landlord shall have the right, to be exercised by giving written notice to Tenant within ten (10) business days after receipt of Tenant's notice, to recapture the space described in Tenant's notice and such recapture notice shall, if given, cancel and terminate this Lease with respect to the space therein described as of the date stated in Tenant's notice. If Tenant's notice shall cover all of the Premises, and Landlord shall have exercised its foregoing recapture right, the Term of this Lease shall expire and end on the date stated in Tenant's notice as fully and completely as if that date had been herein definitely fixed for the expiration of the Term. If, however, this Lease be cancelled with respect to less than the entire Premises, Base Rent and rent adjustments reserved herein shall be adjusted on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, as described in this Lease, and this Lease as so amended shall continue thereafter in full force and effect. Notwithstanding the foregoing, in the event Landlord has the right, and thereafter elects, to exercise the foregoing recapture right, Tenant shall have the right to rescind the proposed transfer by providing written notice thereof to Landlord within five (5) business days following its receipt of Landlord's recapture notice. In the event that Landlord recaptures the Premises or applicable portion thereof, subject to the terms and conditions hereof, Landlord shall be responsible for any and all costs to fully demise such areas. Landlord shall use good faith reasonable efforts to respond to any written request for a proposed assignment or sublease within fifteen (15) business days after Landlord's receipt of such request.

If Landlord, upon receiving Tenant's notice with respect to any such space, shall not exercise its right to recapture as aforesaid, and if Tenant is not in Default under the terms of this Lease, Landlord will not unreasonably withhold its consent to Tenant's assignment of the Lease or subletting such space to the party identified in Tenant's notice and upon the terms set forth in Tenant's notice. If Landlord fails to advise Tenant within twenty (20) days after Landlord's receipt of Tenant's notice whether or not Landlord approves of any such assignment or sublease, Landlord shall be deemed to have approved such assignment or sublease, provided, however, that in the event Landlord consents to (or is deemed to have consented to) any such assignment or subletting, and as a condition thereto, Tenant shall pay to Landlord fifty percent (50%) of all profit derived by Tenant from such assignment or subletting. For purposes of the foregoing, profit shall be deemed to include, but shall not be limited to, the amount paid or payable to Tenant or any other party to effect or to induce Tenant or any third party to enter into any such transaction, and the amount of all rent and other consideration of whatever nature payable by such assignee or sublessee or a third party in excess of the Base Rent and rent adjustments payable by Tenant under this Lease, after deducting therefrom Tenant's reasonable expenses incurred in connection with such sublease or assignment, including advertising expenses, brokerage commissions, rent concessions, tenant improvement

allowances, other financial concessions, and legal fees. If a part of the consideration for such assignment or subletting shall be payable other than in cash, the payment to Landlord of its share of such non-cash consideration shall be in such form as is reasonably satisfactory to Landlord.

Tenant shall and hereby agrees that it will furnish to Landlord upon request from Landlord a complete statement, certified by an appropriate officer of Tenant, setting forth in detail the computation of all profit derived and to be derived from such assignment or subletting, such computation to be made in accordance with generally accepted accounting principles. Tenant agrees that Landlord or its authorized representatives shall be given access at all reasonable times to the books, records and papers of Tenant relating to revenue, expenses and the computation of profit with respect to any such assignment or subletting, and Landlord shall have the right to make copies thereof. The percentage of profit due Landlord hereunder shall be paid to Landlord within thirty (30) days of receipt of each payment of profit made from time to time by such assignee or sublessee to Tenant.

Landlord's consent (or deemed consent) to any assignment or sublease shall not operate as a consent to any subsequent assignment or sublease or as a waiver of Landlord's right to require Tenant to seek Landlord's approval of all subsequent assignments and subleases. Any subletting or assignment hereunder shall not release or discharge Tenant of or from any liability, whether past, present or future, under this Lease, and Tenant shall continue fully liable hereunder. Any subtenant or assignee shall agree in a form reasonably satisfactory to Landlord to comply with and be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease to the extent of the space sublet or assigned, and Tenant shall deliver to Landlord promptly within ten (10) days after execution, a fully executed copy of each such sublease or assignment and all other agreements related thereto and an agreement of compliance by each such subtenant or assignee. Tenant agrees to pay to Landlord, on demand, all reasonable costs incurred by Landlord (including fees paid to consultants, brokers, accountants and attorneys) in connection with any request by Tenant for Landlord to consent to any assignment or subletting by Tenant. Any sale, assignment, mortgage, transfer, or subletting of this Lease which is not in compliance with the provisions of this Article shall be of no effect and void. Notwithstanding any requirement for Landlord to consider, solicit or obtain a sublease or assignment, whether statutory or otherwise, Landlord and Tenant expressly agree that Landlord's obligation with respect to such sublease or assignment shall arise only when Tenant submits such sublease or assignment to Landlord in the manner set out in this Article 12. Notwithstanding anything else herein to the contrary, in no event shall Tenant assign and/or sublet all of any portion of the Premises (i) in contravention of the terms of this Lease, including the use clause set forth in Article 2 hereof, (ii) to any existing tenant in the Building or the adjacent 350 North Orleans building (the "North Orleans Building") unless Landlord or the owner of the North Orleans Building cannot accommodate such existing tenant's needs in the Building and/or the North Orleans Building; and/or (iii) to any prospective tenant with whom Landlord or the owner of the North Orleans Building is in bona fide negotiations for space at the Building and/or the North Orleans Building. For the purpose of this Lease, "bona fide negotiations" shall be deemed to exist when, at a minimum, substantive negotiations have occurred between the Landlord and a prospective tenant within the last 90 days after Landlord has presented a written proposal to and conducted a tour of the proposed space with the prospective tenant.

Subject to the following paragraph, for purposes of the foregoing, (a) if Tenant is a partnership, any change in the partners of Tenant resulting in a change in the control of such partnership, or (b) if Tenant is a corporation the voting stock of which is not listed on a nationally recognized security exchange or the National Association for Securities Dealers Automated Quotations (NASDAQ) or its equivalent, any transfer of any or all of the shares of stock of Tenant by sale, assignment, operation of law or otherwise resulting in a change in the present control of such corporation, or (c) the transfer of all or substantially all of the assets of Tenant, shall be deemed to be an assignment within the meaning of this Article 12.

Notwithstanding anything set forth above to the contrary, provided Tenant is not in Default in the performance of its obligations hereunder, Tenant shall have the right without the prior consent of Landlord, except as provided below, to assign this Lease or sublet the Premises or any part thereof to any Successor or Affiliate, as hereinafter defined, of Tenant, or to effect a transfer of ownership, control or assets of Tenant to a Successor or Affiliate of Tenant, on the following conditions: (a) Tenant shall notify Landlord in writing of such assignment, subletting or transfer not less than ten (10) days prior to the effective date thereof, and furnish to Landlord such information (including the most recent financial statement) regarding the identity, business, reputation and financial condition of such Affiliate or Successor as Landlord may reasonably require; (b) Tenant shall deliver to Landlord evidence reasonably satisfactory to Landlord that such Affiliate or Successor satisfies the requirements of this grammatical paragraph of Article 12; (c) in the case of any assignment (other than a deemed assignment by transfer of ownership, control or assets of Tenant) or any subletting, Tenant shall deliver to Landlord copies of all operative documents effecting such assignment or subletting, which documents shall be subject to Landlord's reasonable approval; and in the case of a deemed assignment by transfer of ownership, control or assets of Tenant, Tenant shall deliver to Landlord an executed copy of an agreement in form reasonably satisfactory to Landlord by which such transferee Affiliate or Successor has agreed to comply with, be bound by, and assume all of the terms, covenants, conditions and provisions of this Lease; (d) any such subletting, assignment or transfer shall not release or discharge the initial Tenant of or from any liability, whether past, present or future, under this Lease and the initial Tenant shall continue fully liable hereunder; and (e) the creditworthiness of such Successor or Affiliate shall be reasonably acceptable to Landlord. "Successor" is defined as any corporation or entity resulting from a merger or consolidation with Tenant or any corporation or entity succeeding to substantially all of the business and assets of Tenant; and "Affiliate" is defined as any corporation that through one or more intermediaries, controls or is controlled by, or is under common control with, Tenant ("control" meaning the possession of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise). If, after giving effect to any such assignment, subletting or transfer to a Successor or Affiliate and any merger, consolidation, reorganization or transfer of assets in connection therewith, the aggregate net worth of the assigning Tenant (remaining liable on the Lease) and the assignee, sublessee or transferee would not be substantially the same as or greater than the net worth of the Tenant (and any Affiliate or Successor previously liable on the Lease) immediately prior to such assignment, sublease or transfer (and any merger, consolidation, reorganization or transfer of assets in connection therewith), then Landlord shall not be deemed to be acting unreasonably in determining the creditworthiness of the Successor or Affiliate not to be acceptable.

Notwithstanding any other provisions of this Lease to the contrary, neither Tenant nor any direct or indirect assignee or subtenant of Tenant, including without limitation any Successor or Affiliate, may enter into any lease, sublease, license, concession or other agreement for use, occupancy or utilization of space in the Premises which would require the payment of rent based on the net profits of any person or of any consideration that would not fall within the definition of "rents from real property", as that term is defined in Section 856(d) of the Internal Revenue Code of 1986, as amended.

13. EXPENSES OF ENFORCEMENT. Tenant shall pay all reasonable attorneys' fees and expenses of Landlord incurred in successfully enforcing any of the obligations of Tenant under this Lease. Landlord shall pay all reasonable attorneys' fees and expenses of Tenant incurred in successfully enforcing any of the obligations of Landlord under this Lease.

14. LANDLORD'S LIEN. Landlord reserves its right to any liens allowed by law.

15. LANDLORD'S REMEDIES. If Tenant fails to make any payment, when due, of rent or any installment thereof or in the payment of any other sum required to be paid by Tenant under this Lease, and such failure shall continue for ten (10) days after written notice to Tenant or if Tenant fails to perform any of the other covenants or conditions which Tenant is required to observe and perform hereunder and such failure shall continue for thirty (30) days after written notice to Tenant (or if any such Default not involving a hazardous or dangerous condition and not involving Tenant's failure to comply with the provisions of Article 25 hereof cannot be cured within such 30-day period, so long as Tenant has promptly commenced to cure such Default during such initial 30-day period and thereafter diligently pursues such cure to completion within a reasonable period of time and in all events within an additional sixty (60) days after the expiration of said 30-day period) or if the interest of Tenant in this Lease shall be levied on under execution or other legal process (and such levy is not dismissed within ninety (90) days), or if any petition shall be filed by or against Tenant to declare Tenant a bankrupt (and is not dismissed within one hundred twenty (120) days) or to delay, reduce or modify Tenant's debts or obligations or if any petition (i) shall be filed by Tenant or (ii) filed against Tenant and is not dismissed within sixty (60) days or other action taken to reorganize or modify Tenant's capital structure, if Tenant is a corporation or other entity, or if Tenant be declared insolvent according to law or if any assignment of Tenant's property shall be made for the benefit of creditors or if a receiver or trustee is appointed for Tenant or its property or if Tenant shall abandon or vacate the Premises and cease to pay rent during the Term of this Lease, then Landlord may treat the occurrence of any one or more of the foregoing events as a breach of this Lease, and thereupon at its option may, without further notice or further demand of any kind to Tenant or any other person, have any one or more of the following described remedies in addition to all other rights and remedies provided at law or in equity:

(a) Landlord may terminate this Lease and the Term created hereby, in which event Landlord may forthwith repossess the Premises by forcible entry and detainer suit or otherwise and be entitled to recover forthwith as damages a sum of money equal to the value of the rent provided to be paid by Tenant for the balance of the stated Term of the Lease (excluding any Extended Term), less the value of the fair market rental value of the Premises for such period, and

any other sum of money and damages owed by Tenant to Landlord pursuant to the terms of this Lease.

(b) Landlord may terminate Tenant's right of possession and may repossess the Premises by forcible entry and detainer suit, or otherwise, without further demand or notice of any kind to Tenant and without terminating this Lease, in which event Landlord shall reasonably attempt to mitigate its damages as required by law. Landlord in such instances expressly reserves the right to relet all or any part of the Premises for such rent and upon such terms as shall be reasonably satisfactory to Landlord (including the right to relet the Premises for a term greater or lesser than that remaining under the Term of this Lease and the right to relet the Premises as a part of a larger area and the right to change the character or use made of the Premises). For the purpose of such reletting, Landlord may make such repairs, changes, alterations or additions in or to the Premises as may be necessary or convenient. If Landlord shall fail to relet the Premises, then Tenant shall pay to Landlord as damages a sum equal to the amount of the rent reserved in this Lease for such period or periods due hereunder from time to time. If the Premises are relet and a sufficient sum shall not be realized from such reletting after paying all of the reasonable costs and expenses of such repairs, changes, alterations and additions and the expense of such reletting and the collection of the rent accruing therefrom, to satisfy the rent above provided to be paid, Tenant shall satisfy and pay any such deficiency upon thirty (30) days written demand therefor from time to time; and Tenant agrees that Landlord may file suit to recover any sums falling due under the terms of this paragraph from time to time and that any suit or recovery of any portion due Landlord hereunder shall be no defense to any subsequent action brought for any amount not theretofore reduced to judgment in favor of Landlord.

(c) In addition to all other rights and remedies of Landlord hereunder or at law, in the event of a Default by Tenant, Landlord shall be entitled to receive as damages from Tenant (in addition to any other damages provided herein) an amount equal to the then unamortized amount of Landlord's Contribution made available to Tenant pursuant to Article 34 hereof, assuming amortization of such amount over a period of 60 calendar months, commencing on the Commencement Date (or if the Commencement Date is not the first day of a calendar month, on the first day of the first calendar month following the Commencement Date), at a level monthly payment with an interest factor equal to ten percent (10%) per annum; provided, however, in no event shall the provisions of this subparagraph (c) permit Landlord to receive a double recovery of any rent actually paid by Tenant.

16. SURRENDER OF POSSESSION. On or before the date this Lease and the Term hereby created terminate, or on or before the date Tenant's right of possession terminates, whether by lapse of time or at the option of Landlord, in accordance with the terms of this Lease, Tenant will: (a) remove those alterations, improvements and additions installed by Tenant which Tenant is required to remove pursuant to Article 8 hereof or any other applicable provision herein, the Tenant Responsible Premises in "as is" broom clean condition and repair any material damage to the Tenant Responsible Premises or the Building caused by Tenant's removal of such alterations, improvements or additions; (b) remove from the Premises and the Building all of Tenant's trade fixtures and personal property, including without limitation, all cabling, wiring and equipment located outside the Premises as required to be removed pursuant to Article 8; and (c)

surrender possession of the Premises to Landlord. If Tenant shall fail or refuse to restore the Premises to the above-described condition on or before the above-specified date, Landlord may upon notice to Tenant enter into and upon the Premises and put the Premises in such condition, and recover from Tenant Landlord's reasonable out-of-pocket cost of so doing. If Tenant shall fail or refuse to comply with Tenant's duty to remove all trade fixtures and personal property from the Premises and the Building on or before the above-specified date, the parties hereto agree and stipulate that Landlord may, as its election: (1) treat such failure or refusal as an offer by Tenant to transfer title to such trade fixtures and personal property to Landlord, in which event title hereto shall thereupon pass under this Lease as a bill of sale to and vest in Landlord absolutely without any cost either by set-off, credit allowance or otherwise, and Landlord may remove, sell, retain, donate, destroy, store, discard, or otherwise dispose of all or any part of said personal property in any manner that Landlord shall choose; or (2) treat such failure or refusal as conclusive evidence, on which Landlord and any third party shall be entitled absolutely to rely and act, that Tenant has forever abandoned such trade fixtures and personal property, and without accepting title thereto, Landlord may at Tenant's expense enter into and upon the Premises and remove, sell, retain, donate, destroy, store, discard or otherwise dispose of all or any part thereof in any manner that Landlord shall choose without incurring liability to Tenant or to any other person. In no event shall Landlord ever become or accept or be charged with the duties of a bailee (either voluntary or involuntary) of any personal property or trade fixtures; and the failure of Tenant to remove all personal property and trade fixtures from the Premises and the Building shall forever bar Tenant from bringing any action or from asserting any liability against Landlord with respect to any such property which Tenant fails to remove. If Tenant shall fail or refuse to surrender possession of the Premises to Landlord on or before the above-specified date, Landlord may, in accordance with Illinois law, forthwith re-enter the Premises and repossess itself thereof as of its former state and remove all persons and effects therefrom, using such force as may be necessary, without being guilty of any manner of trespass or forcible entry or detainer.

17. HOLDOVER. Tenant shall pay to Landlord an amount equal to the sum of one hundred fifty percent (150%) of the Base Rent plus one hundred percent (100%) of rent adjustments (including without limitation adjustments in respect of Real Estate Related Taxes and Operating Expenses) for all the time Tenant shall retain possession of the Premises or any part thereof after the termination of this Lease, whether by lapse of time or otherwise. In addition thereto, Tenant shall pay all damages, whether direct or consequential, sustained by Landlord on account of or as a result of any such holdover extending for more than thirty (30) days, but the provisions of this Article shall not operate as a waiver by the Landlord of any right of re-entry hereinbefore provided. Landlord agrees that, upon receipt of written request from Tenant during the last thirty (30) days of the Term, Landlord will use reasonable efforts to estimate the nature and scope of the damages that Landlord would anticipate incurring if Tenant failed to vacate the Premises promptly upon expiration of the Term of this Lease. At the option of Landlord, expressed in a written notice to Tenant and not otherwise, any holding over by Tenant extending more than thirty (30) days beyond the termination of this Lease for any portion of a calendar month shall constitute a holding over and extension of this Lease for such entire calendar month at a rental equal to the greater of the holdover rental specified above in this Article 17 or the then prevailing rental rates for similar space in the Building.

18. ENVIRONMENTAL MATTERS.

Landlord represents that (i) to Landlord's actual knowledge, the Premises and its existing uses comply in all material respects with all applicable Environmental Laws (defined below) as existing on the date hereof; (ii) to Landlord's actual knowledge, Landlord, in connection with its ownership, use, maintenance or operation of the Premises or its use, handling, storage or removal of any Hazardous Materials (defined below) on the Premises is not as of the date hereof in violation in any material respect of any Environmental Laws; and (iii) Landlord has not received any notice of any violation or claimed violation of any Environmental Law or of any pending or contemplated investigation, lawsuit or other action relating thereto that has not been remedied.

Landlord further represents and covenants that all Hazardous Materials regulated under Environmental Laws, other than any Hazardous Materials which may have been incorporated into the improvements at the Premises, in each case in accordance with all Environmental Laws, will have been removed from the Premises on or before the date that the Landlord's Work is completed and the Premises have been delivered to Tenant. Landlord shall indemnify and hold Tenant harmless for all costs, loss and expense arising from any breach of the foregoing representation and covenant.

Landlord covenants and agrees that it will promptly observe and comply in all material respects with all Environmental Laws relating to the Building in any way affecting Tenant's use and enjoyment of the Premises; provided, however, that Landlord shall have no obligation or responsibility on account of or with respect to any act or omission of, or any condition caused or permitted by, Tenant or Tenant's employees, agents, contractors, invitees or anyone claiming through Tenant (collectively, "Tenant's Group") in violation of any Environmental Laws. Notwithstanding the above, Landlord further agrees that Tenant shall not be liable for any costs and expenses incurred in connection with the removal, containment or other remediation of any Hazardous Materials in the Premises as may be required under applicable Environmental Laws (it being understood that Landlord's costs relating to the same shall not be included as an "Operating Expense as defined herein), so long as such Hazardous Materials were not placed in the Building by any of Tenant's Group. Landlord will promptly after the discovery of any Hazardous Materials in the Premises, except to the extent such Hazardous Materials are placed in the Premises by any of Tenant's Group, cause any such Hazardous Materials to be removed, contained or remediated at Landlord's cost and expense to the extent required by and in accordance with applicable Environmental Laws and, if applicable, the O&M Program (it being understood that costs related to the same shall not be included as an "Operating Expense" as defined herein).

Tenant covenants and agrees that it will promptly observe and comply in all material respects with all Environmental Laws relating to the Premises; provided, however, that Tenant shall have no obligation or responsibility on account of or with respect to any act or omission of, or any condition caused or permitted by, Landlord or Landlord's employees, agents, contractors, invitees or anyone (other than any of Tenant's Group) claiming through Landlord. Tenant further agrees that it will not use, handle, generate, treat, store or dispose of, or permit the handling, generation, treatment, storage or disposal of any Hazardous Materials in, on, under, around or above the

Premises now or at any future time (except for Hazardous Materials of such types and in such amounts as are customarily used in connection with normal office uses, provided such use and storage is in compliance with all Environmental Laws), and will indemnify, defend and hold harmless Landlord and its agents, officers, directors, managers, members, shareholders, partners, agents and employees, and any successors or assigns of any of the foregoing, from all fines, suits, procedures, claims, out-of-pocket costs, losses and actions of every kind, and all costs associated therewith (including reasonable attorneys' and consultants' fees, but in no event lost profits or consequential damages) and including, but not limited to, those arising from injury to any person, including death, damage to or loss of use or value of real or personal property, and costs of investigation and cleanup arising by, through or under Tenant, its agents, employees, contractors, servants and invitees and out of or in any way connected with any deposit, spill discharge or other release of Hazardous Materials that are first introduced during the Term of this Lease, by Tenant or an agent of Tenant or Tenant's knowing failure to provide all material information, make all required submissions, and take all steps required to be taken by Tenant hereunder and all applicable governmental authorities or under any Environmental Laws. Tenant shall maintain on the Premises any material safety data sheets or other information required under the Occupational and Health Safety Act or other applicable laws and such items shall be made available for inspection by Landlord upon request. Tenant's obligations and liabilities under this paragraph shall survive the expiration of the Term of this Lease. Notwithstanding the foregoing to the contrary, Tenant shall have no obligation or liability with respect to any Hazardous Materials that are used, located, stored or processed by Landlord or any of Landlord's agents, employees, representatives or contractors in, at or about the Building (or any portion thereof), including, without limitation, in connection with janitorial services provided by Landlord.

The term "Hazardous Materials", when used herein, shall include, but shall not be limited to, any substances, materials or wastes to the extent quantities thereof are regulated by the City of Chicago or any other local governmental authority, the State of Illinois, or the United States of America because of toxic, flammable, explosive, corrosive, reactive, radioactive or other properties that may be hazardous to human health or the environment, including, without limitation, asbestos, radioactive materials and crude oil or any fraction thereof, and including any materials or substances that are listed in the United States Department of Transportation Hazardous Materials Table, as amended, 49 C.F.R. 172.101, or in the CERCLA, as amended, 42 U.S.C. subsections 9601 et seq., or the Resource Conservation and Recovery Act, as amended, 42 U.S.C. subsections 6901 et seq., or any other applicable governmental regulation imposing liability or standards of conduct concerning any hazardous, toxic or dangerous substances, waste or material, now or hereafter in effect.

"Environmental Laws" collectively means and includes all present and future laws and any amendments (whether common law, statute, rule, order, regulation or otherwise), permits, and other requirements or guidelines of governmental authorities applicable to the Premises and relating to the environment and environmental conditions or to any Hazardous Material (including, without limitation, CERCLA, 42 U.S.C. §9601, et seq.; the Resource Conservation and Recovery Act of 1976, 42 U.S.C. §6901, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. §1801, et seq.; the Federal Water Pollution Control Act, 33 U.S.C. §1251, et seq.; the Clean Air Act, 33 U.S.C. §7401, et seq.; the Clean Air Act, 42 U.S.C. §741 et seq.; the Toxic Substances Control Act,

15 U.S.C. §2601-2629, the Safe Drinking Water Act, 42 U.S.C. §300f-300j, the Emergency Planning and Community Right-To-Know Act, 42 U.S.C. §1101, et seq., and any so-called "Super Fund" or "Super Lien" law, any law requiring the filing of reports and notices relating to hazardous substances, environmental laws administered by the Environmental Protection Agency, and any similar state and local laws and regulations, all amendments thereto and all regulations, orders, decisions, and decrees now or hereafter promulgated thereunder concerning the environment, industrial hygiene or public health or safety.)

19. NOTICE. In every case where it shall be necessary or desirable for Tenant to give or serve upon Landlord any notice or demand, Tenant shall give the requisite notice either (a) by delivering or causing to be delivered to Landlord a written or printed copy of such notice or demand, or (b) by sending a written or printed copy of such notice or demand by either (i) Federal Express or similar commercial overnight delivery service, or (ii) certified or registered mail, return receipt requested, postage prepaid, addressed to Landlord at:

Merchandise Mart Properties, Inc.
222 The Merchandise Mart, Suite 470
Chicago, Illinois 60654
Attention: President

with a copy to:

Merchandise Mart Properties, Inc.
222 The Merchandise Mart, Suite 470
Chicago, Illinois 60654
Attention: Legal Department

In every case where under the provisions of this Lease it shall be necessary or desirable for Landlord to give or serve upon Tenant any notice or demand it shall be sufficient either (a) to deliver or cause to be delivered to Tenant a written or printed copy of such notice or demand, or (b) to send a written or printed copy of said notice or demand by either (i) Federal Express or similar commercial overnight delivery service, or (ii) certified or registered mail, return receipt requested, postage prepaid, addressed to Tenant, at:

Allscripts, LLC
222 Merchandise Mart Plaza
20th Floor
Chicago, Illinois 60654
Attention: Mr. Lee Shapiro

with a copy to:

Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP
333 West Wacker Drive, Suite 2700
Chicago, Illinois 60606
Attention: Bryan J. Segal

Prior to commencement of the Term hereof, any notices which may be necessary or desirable for Landlord to give or serve upon Tenant shall be addressed to Tenant at 2401 Commerce Drive, Libertyville, Illinois 60048, Attn: Mr. Lee Shapiro.

Any such notice served upon Landlord or Tenant in accordance with the foregoing shall be deemed served effective upon receipt or upon refusal to accept delivery. Landlord and Tenant may designate alternative or additional addressees and addresses for notice by delivery of notice in accordance with the provisions of this Article 19; provided that the number of addressees/addresses to which notices to either party must be sent shall not exceed three (3).

20. NO SOLICITATION. Tenant shall not by itself or through any officer, salesman, employee, agent, advertisement or otherwise solicit business in the vestibules, entrances, elevator lobbies, corridors, hallways, elevators or other common areas of the Building.

21. CONDEMNATION. If the whole or any substantial part of the Premises or Building shall be taken or condemned by any competent authority for any public use or purpose (or if the Premises or any substantial portion thereof is rendered inaccessible or otherwise unusable on account thereof on other then a temporary basis) or if any adjacent property or street shall be condemned or improved in such manner as to require the use of a substantial part of the Premises or the Building, the Term of this Lease, at the option of Landlord, shall end upon the date when the possession of the part so taken or condemned shall be actually transferred for such use or purpose and Landlord shall be entitled to receive the entire award, if any, without any payment to Tenant. Landlord shall provide notice to Tenant of any such proceeding within thirty (30) days of Landlord's receipt thereof. Current rent shall be apportioned as of the date of such termination. Notwithstanding the foregoing, Tenant may, to the extent permitted by law, seek a separate award in a separate proceeding for the value of Tenant Responsible Premises and its trade fixtures and other personal property and moving and relocation expenses, so long as Tenant does not materially interfere with the proceedings being conducted by Landlord or otherwise reduce the award to which Landlord is entitled.

22. NONWAIVER. No waiver of any condition expressed in this Lease shall be implied by any neglect of Landlord or Tenant to enforce any remedy on account of the violation of such condition if such violation be continued or repeated subsequently, and no express waiver shall affect any condition other than the one specified in such waiver and that one only for the time and in the manner specifically stated. The receipt and acceptance by Landlord or Tenant of a sum of money which is less than the amount due and owing shall not, regardless of any endorsements or instructions to the contrary, constitute an accord and satisfaction. Unless otherwise specifically agreed to by Landlord and Tenant in writing, no receipt of moneys by Landlord from Tenant after the termination in any way of the Term hereof or of Tenant's right of possession hereunder or after the giving of any notice shall reinstate, continue or extend the Term or affect any notice given to Tenant prior to the receipt of such moneys, it being agreed that after the service of notice or the commencement of a suit or after final judgment for possession of the

Premises Landlord may receive and collect any rent due, and the payment of such rent shall not waive or affect such notice, suit or judgment.

23. WAIVER OF NOTICE. To the extent that the notice provided in Article 15 hereof satisfies the requirements, if any, for service of notice or demand prescribed by any applicable statute or law, Tenant hereby expressly waives the service of any other notice of intention to terminate this Lease or to re-enter the Premises and waives the service of any demand for payment of rent or for possession and waives the service of any other notice or demand prescribed by any statute or other law.

24. FIRE OR CASUALTY. If the Premises or any part of the Building shall be damaged by fire or other casualty and if such damage does not render all or more than twenty-five percent (25%) of the rentable floor area (hereinafter referred to as a "substantial portion") of the Premises or the Building untenantable (and for purposes of this Article 24, the Premises shall be deemed untenantable if (i) there is a material impairment of the reasonable means of access thereto, (ii) there is a material impairment to Tenant's ability to conduct a substantial portion of its customary business operations therefrom due to damage to the Premises, or (iii) with respect to the Building, there is a material impairment to continued occupancy for its intended use, or a material impairment to Tenant's ability to access the Building), then Landlord shall proceed to repair and restore the Building Systems (including the Building Systems in the Premises) and the reasonable means of access to the Premises with reasonable promptness, given the nature of the damage to be repaired, subject to reasonable delays for insurance adjustments and delays caused by matters beyond Landlord's reasonable control so as to render the Premises tenantable and appropriate for Tenant's use. If any such damage renders all or a substantial portion of the Premises or the Building untenantable, Landlord shall, with reasonable promptness after the occurrence of such damage, but in all events within sixty (60) days after such damage occurred, obtain, at no cost to Tenant, an opinion of an independent architect, engineer or other qualified licensed professional, estimating the length of time that will be required to substantially complete the repair and restoration of the Building Systems (including the reasonable means of access to the Building and the Premises) and the Tenant Responsible Premises (stating separate estimated time periods for the repair and restoration of the Building Systems, including those in the Premises, and the repair and restoration of the Tenant Responsible Premises) and by written notice advise Tenant of such estimate (such notice being referred to herein as the "Repair Estimate Notice"). If it is so estimated that the amount of time required to substantially complete such repair and restoration of both the Building Systems (including those in the Premises and the reasonable means of access to the Premises) and the Tenant Responsible Premises will exceed one hundred and eighty (180) days, then either Landlord or Tenant shall have the right to terminate this Lease as of the date of such damage upon giving notice to the other at any time within thirty (30) days after Landlord delivers the Repair Estimate Notice to Tenant (it being understood that Landlord may, if it elects to do so, also give such notice of termination together with the Repair Estimate Notice). Notwithstanding the foregoing, if such damage renders untenantable a material portion of the Building but does not render untenantable a material portion of the Premises, Landlord shall not have the right to terminate this Lease on account of such damage, unless Landlord elects generally to terminate all leases in the Building which Landlord is entitled to terminate on account of such damage or Landlord elects to demolish all or

a substantial portion of the Building, and any such termination of this Lease shall be effective as of a date, specified by Landlord, not less than sixty (60) days after the delivery of such termination notice.

Unless this Lease is terminated as provided in the preceding paragraph, Landlord shall proceed with reasonable promptness to repair and restore the Building Systems, so as to render the Premises tenantable, including Building Systems in the Premises and the reasonable means of access to the Premises, subject to reasonable delays for insurance adjustments and delays caused by matters beyond Landlord's reasonable control, and also subject to zoning laws and applicable building codes then in effect. When the repair and restoration of the Building Systems is completed to a degree making the Premises suitably available for Tenant's repair and restoration of the Tenant Responsible Premises, Tenant shall proceed with reasonable promptness to repair and restore the Tenant Responsible Premises, subject to reasonable delays for insurance adjustments and delays caused by matters beyond Tenant's reasonable control and applicable building codes then in effect. Landlord shall have no liability to Tenant, and Tenant shall not be entitled to terminate this Lease (except as hereinafter provided) if such repair and restoration of the Building Systems is not in fact completed within the time period specified in the Repair Estimate Notice. If the Building Systems are not repaired and restored so as to render the Premises tenantable by the later of (i) one hundred eighty (180) days after delivery of the Repair Estimate Notice or (ii) a number of days equal to one hundred twenty-five percent (125%) of the number of days specified in the Repair Estimate Notice for completion of the repair and restoration of the Building Systems, measured from the date of delivery of the Repair Estimate Notice (provided, however, such number of days in each of the foregoing clauses (i) and (ii) may be extended up to an additional one hundred twenty (120) days due to Force Majeure events), then either party (but as to Landlord, only if Landlord has diligently commenced and pursued such repair and restoration) may terminate this Lease, effective as of the date of such fire or other casualty, by written notice to the other party delivered not later than thirty (30) days after the expiration of said period but prior to substantial completion of such repair or restoration.

Notwithstanding anything to the contrary herein set forth, (a) Landlord shall have no obligation to repair or restore any of the Tenant Responsible Premises or Tenant's office furniture, trade fixtures, office equipment, merchandise or any other items of Tenant's property in the Premises or the Building; (b) if any such damage rendering all or a material portion of the Premises or the Building untenantable shall occur during the last one (1) year of the Term and provided Tenant has not delivered a binding notice under Article 36 to extend the Term of this Lease beyond the then current Term (or Extended Term), each of Landlord and Tenant shall have the option to terminate this Lease by giving written notice to the other within sixty (60) days after the date such damage occurred, and if such option is so exercised, this Lease shall terminate as of the date of such fire or other casualty (or such later date through which Tenant continues to occupy the Premises) and (c) Landlord shall have the right to terminate this Lease by giving written notice to Tenant within sixty (60) days of the date such damage occurred if Landlord elects to terminate all tenant leases in the Building which Landlord is entitled to terminate on account of such damage or to demolish the Building, and if such right is so exercised, this Lease shall terminate as of the date of such fire or other casualty (or such later date through which Tenant continues to occupy the Premises).

In the event any such fire or casualty damage renders the Premises or any part thereof untenantable and if this Lease shall not be terminated pursuant to the foregoing provisions of this Article 24 by reason of such damage, then all rent (including, without limitation, Base Rent and rent adjustments) payable pursuant to this Lease with respect to the Premises or such portion so rendered untenantable shall abate during the period beginning with the date of such damage and ending with the date that Tenant substantially completes the repair and restoration of the Tenant Responsible Premises (or such portion rendered untenantable) or commences substantial use of the Premises (or such portion rendered untenantable) for the conduct of its business, whichever is earlier, but in all events not later than the later of (i) two hundred fifty (250) days or (ii) a number of days equal to one hundred fifty percent (150%) of the number of days specified in the Repair Estimate Notice for completion of the repair and restoration of the Tenant Responsible Premises, in each case measured from the date that the Building Systems are repaired and restored to a degree making the Premises suitably available for Tenant to commence and continue without unreasonable interruption Tenant's repair and restoration of the Tenant Responsible Premises, provided, however, such number of days in each of the foregoing clauses (i) and (ii) may be extended up to an additional one hundred twenty (120) days due to Force Majeure events. Such abatement shall be in an amount bearing the same ratio to the total amount of all rent (including rent adjustments) payable pursuant to this Lease for such period as the portion of the Premises rendered and remaining untenantable due to such fire or casualty from time to time bears to the entire Premises. In the event of termination of this Lease pursuant to this Article 24, all rent (including, without limitation, Base Rent and rent adjustments) payable pursuant to this Lease (to the extent not abated pursuant to the foregoing) shall be apportioned on a per diem basis and be paid to the date of termination.

25. INSURANCE. In consideration of the leasing of the Premises at the rental stated in Articles 3 and 4, Landlord and Tenant agree to provide insurance and allocate the risk of loss as follows:

Tenant, at its sole cost and expense, agrees to purchase and keep in force and effect during the Term hereof (a) Property Insurance on the Tenant Responsible Premises and Tenant's contents, furniture, fixtures, equipment and other personal property located in the Building, covering the interests of Landlord and Tenant as to damage or other loss caused by those perils customarily covered by an all risk policy, and in any event including without limitation, fire or other casualty, vandalism, theft, sprinkler leakage, water damage (however caused), explosion, malfunction and failures of heating and cooling or similar apparatus, perils covered by extended coverage, and other similar perils in amounts not less than the full insurable replacement value of such property with a deductible amount in a commercially reasonable amount, taking into account the financial condition of Tenant, and (b) broad form Commercial General Liability Insurance, including blanket contractual liability, host liquor liability (if alcoholic liquor within the meaning of the Illinois Liquor Control Act will be given to guests), personal injury liability, and broad form property damage liability coverages, with limits of not less than Three Million Dollars ($3,000,000) for personal injury, bodily injury, sickness, disease or death or for damage or injury to or destruction of property (including the loss of use thereof) for any one occurrence, and (c) worker's compensation insurance in accordance with the laws of the State of Illinois and employer's liability insurance with a limit of not less than Three Hundred Thousand Dollars ($300,000). Tenant's Property Insurance

policy shall provide that it is specific and not contributory and shall contain a clause pursuant to which the insurance carrier waives all rights of subrogation against Landlord and Landlord's members and their respective officers, directors, managers, shareholders, partners, members, beneficiaries, agents and employees with respect to losses payable under such policy; and Tenant agrees to indemnify Landlord and Landlord's members and their respective officers, directors, managers, shareholders, partners, members, beneficiaries, agents and employees against all liabilities, damages, costs, claims, obligations and expenses (including attorneys' fees) arising from any failure of Tenant's Property Insurance policy to contain such a waiver of subrogation; provided that Landlord shall have no right or interest in any insurance proceeds which relate to Tenant's trade fixtures, equipment, furniture and other personalty which do not relate to leasehold improvements at the Premises. If the potential for host liquor liability shall arise due to Tenant's activities pursuant to Article 2 of this Lease, the Tenant shall procure and maintain a policy, or endorsement for, liability insurance before undertaking such activities. Tenant's Commercial General Liability policy and, if required, its host liquor liability policy or endorsement, shall each name Landlord, Landlord's members and their respective officers, directors, managers, shareholders, partners, members, beneficiaries, agents, and employees as additional insureds. All such insurance shall be provided by commercial insurers of recognized responsibility and shall provide that should the policy be cancelled before its expiration date, the insurer shall mail to Landlord at least thirty (30) days prior written notice of such cancellation.

Landlord agrees to purchase and keep in force and effect insurance on the Building and Building Systems against fire and such other risks as may be included in extended coverage insurance (which shall include coverage for explosion and loss of rental income) from time to time available on a replacement value basis or in an amount sufficient to prevent Landlord from becoming a co-insurer under the terms of the applicable policies and shall contain a clause pursuant to which the insurance carriers waive all rights of subrogation against the Tenant, its agents, officers, directors and employees, with respect to losses payable under such policies.

Tenant shall, from time to time upon request from Landlord but not more frequently than once each calendar year (except in the case of any change in coverage or any change in insurer, in any of which events Tenant agrees to provide Landlord written notice of such change within thirty (30) days of its occurrence), deliver to Landlord certificates of insurance evidencing the insurance coverage required by this Article 25, with a notation on such certificates as to the waiver of subrogation provided above.

By this Article, Landlord and Tenant intend that the risk of loss or damage to property (including personal property and equipment use in connection with the Building and also including any automobile or other vehicles from time to time parked in any parking spaces which Landlord may from time to time lease to Tenant), as described above be borne by responsible insurance carriers to the extent above provided and Landlord and Tenant hereby release each other and agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a loss of a type described above to the extent that such coverage is agreed to be provided hereunder. For this purpose any applicable deductible amount shall be treated as though it were recoverable under such policies. Landlord and Tenant agree that applicable portions of all moneys collected

from such insurance shall be used toward full compliance with the obligations of Landlord and Tenant under this Lease in connection with damage resulting from fire or other casualty.

26. CERTAIN RIGHTS RESERVED BY LANDLORD. Landlord shall have the following rights, exercisable without notice, except as otherwise stated, and without liability to Tenant for damages or injury to property, person or business and without effecting an eviction, constructive or actual, or disturbance of Tenant's use or possession or giving rise to any claim for set-off or abatement of rent except as otherwise expressly provided herein:

(A) To change the Building's name or street address. Landlord agrees to give Tenant one hundred eighty (180) days prior notice of such change of street address (except where Landlord is required to change the street address by any governmental authority).

(B) To install, affix and maintain any and all signs on the exterior and interior of the Building.

(C) To designate and approve, prior to installation by Tenant, all types of window shades, blinds, drapes, awnings, window ventilators and other similar equipment, and to reasonably control all internal lighting that may be visible from the exterior of the Building so as to promote the uniformity or harmony of appearance of the exterior of the Building.

(D) Except as provided otherwise in this Lease, to reserve to Landlord the exclusive right to designate, limit, restrict and control any business or any service in or to the Building and its tenants.

(E) To grant to anyone the exclusive right to conduct any business or render any service in or to the Building, provided such exclusive right shall not operate to exclude Tenant from the use expressly permitted herein or increase the costs therefor to Tenant, and the rates charged by any such vendor shall be competitive market rates.

(F) To impose reasonable non-discriminatory rules and regulations regarding the placing of vending or dispensing machines of any kind in or about the Premises without the prior written permission of Landlord.

(G) To show the Premises to prospective tenants at reasonable hours and upon reasonable written notice (but in no event less than twenty-four (24) hours notice) by appointment and accompanied by a representative of Tenant during the last twelve (12) months of the Term, as it may be extended.

(H) To reasonably approve the weight, size and location of safes and other heavy equipment and bulky articles in and about the Premises and the Building (so as not to exceed the legal live load), and to require all such items and furniture and similar items to be moved into and out of the Building and Premises only at such times and in such manner as Landlord shall reasonably direct in writing. Subject to the provisions of Articles 11 and 25, and any other applicable provision of this Lease, any damages done to the Building or to other tenants in the

Building by taking in or taking out safes, furniture, and other articles or from overloading the floor in any way shall be paid by Tenant. Furniture, boxes, merchandise or other bulky articles shall be transported within the Building only upon or by vehicles equipped with rubber tires and shall be carried only in a freight elevator when such service is available. Movements of Tenant's property into or out of the Building and within the Building are entirely at the risk and responsibility of Tenant and Landlord reserves the right to require registration before allowing any such property to be moved into or out of the Building. Landlord reserves the right to reasonably regulate the movement of, and to inspect, all property and packages brought into or out of the Building to enforce compliance with the terms of this Lease and to reasonably regulate delivery and service of supplies and the usage of loading docks, receiving areas and freight elevators. Landlord shall not discriminate against Tenant in its right to use such loading docks, receiving areas and freight elevators in conjunction with other tenants.

(I) To have access for Landlord to any mail chutes located on the Premises according to the rules of the United States Postal Service.

(J) To close the Building after regular working hours and on Saturdays, Sundays and holidays established by Landlord (subject to the limitations set forth herein) from time to time subject, however, to Tenant's right, subject to force majeure, to admittance at all times under such reasonable regulations as Landlord may prescribe from time to time, which may include, by way of example but not of limitation, that persons entering or leaving the Building identify themselves to a security officer by registration or otherwise and that said persons comply with Landlord's regulations concerning their entering and leaving the Building (Landlord agrees to furnish to Tenant prior notice in the case of any scheduled Building shutdown when Tenant shall have access to the Premises through limited entrances provided such notice shall not limit or affect any rights granted to Tenant pursuant to the terms of this Lease).

(K) To change the arrangement, configuration, size or location of entrances, passageways, doors and doorways, corridors, stairs, toilets, elevators and escalators and other public service portions or common areas of the Building and the Property not contained within the Premises or any part thereof, so long as Landlord uses reasonable efforts to give Tenant prior notice in the event of any changes to common areas of the Building directly and materially serving the Premises and so long as any such change does not materially and adversely affect Tenant's ability to conduct its normal and customary business operations in the Premises or Tenant's access to the Premises.

(L) To change the character or use of any part of the Building or the Property.

(M) To devise, implement and enforce such security procedures and policies as Landlord deems reasonably necessary and/or desirable.

(N) To use for itself the roof, the exterior portions of the Premises and such areas within the Premises (so long as the useable area of the Premises is not materially reduced) required for structural columns and their enclosures and the installation of utility lines, Building systems and other installations required to service the Building, the Property or tenants or occupants thereof and

to maintain and repair same, no rights being hereby conferred upon Tenant, and, unless otherwise specifically provided herein, to exercise for itself any rights to the land and improvements below the floor level of the Premises or the air rights above the Premises and to the land and improvements located on and within the public areas. Neither Tenant nor its employees, invitees, guests and agents shall, without obtaining in each instance the prior written consent of Landlord (which consent shall not be unreasonably withheld or delayed, and shall be conditioned upon such requirements as Landlord deems appropriate) (1) go above or through suspended ceilings, (2) remove any ceiling tiles or affix anything thereto, remove anything therefrom or cut into or alter the same in any way, (3) enter fan rooms or other mechanical spaces, or (4) open doors or remove panels providing access to utility lines, Building Systems or other installations required to service tenants.

27. RULES AND REGULATIONS. Subject to the rights expressly granted to Tenant elsewhere in this Lease, Tenant agrees to observe the reservations to Landlord in Article 26 hereof and agrees to comply and to use reasonable business efforts to have its employees, agents, and servants to observe and comply, at all times, with the following rules and regulations and with such reasonable modifications thereof and additions thereto as Landlord may make for the Building (so long as Landlord has delivered to Tenant prior notice of any such modifications and additions and that same are reasonable), and that failure to observe and comply with such reservations, rules and regulations, after written notice of such failure and an opportunity to cure as provided in Section 15 hereof, shall constitute a Default under this Lease:

(A) No sign, picture, advertisement or notice, typewritten or otherwise, shall be displayed, inscribed, painted or affixed by Tenant on any part of the outside or inside of the Building, or on or about the Premises in any location visible from outside the Premises, except on glass of the doors and windows of the Premises and on the directory board of the Building and then only of such nature, color, size, style and material as shall be first approved by Landlord in writing, which approval shall not be unreasonably withheld.

(B) Tenant shall not, without Landlord's prior written consent (which consent shall not be unreasonably withheld), install or operate any heating device or air conditioning equipment, steam or internal combustion engine, boiler, stove, machinery, or mechanical devices upon the Premises or carry on any mechanical or manufacturing business thereon, or use or permit to be brought into the Building flammable fluids such as gasoline, kerosene, benzene, or naphtha (except in such small quantities as customarily used by office tenants for general office use in compliance with applicable legal requirements) or use any illumination other than electric lights. All equipment, fixtures, lamps and bulbs shall be compatible with, and not exceed the capacity of, the Building's electrical system. No explosives, firearms, radioactive or toxic or hazardous substances or materials, or other articles deemed extra hazardous to life, limb or property shall be brought into the Building or the Premises.

(C) Any person or persons employed by Tenant to do janitor work or other physical care for the Premises shall be subject to and under the reasonable control and direction of the building manager (in such manner and to such extent as generally applicable to persons employed by Building tenants) while in the Building and outside of the Premises, but not as agent of Landlord.

Any refuse and rubbish shall be stored and transported in containers reasonably acceptable to Landlord and shall be deposited in locations acceptable to Landlord and consistent with policies established by Landlord for the Building generally.

(D) Tenant shall at its expense provide artificial light for employees or agents of Landlord while cleaning, doing work and making repairs or alterations in the Premises.

(E) The location and manner of installation of all telegraph, telephone, communication, signal and electric connections, cabling and wiring (other than connections, wiring or cabling located exclusively within the Premises and not affecting the Building structure, Building Systems, common areas or other tenants' premises) shall be subject to the reasonable approval of Landlord and any work in connection therewith shall be subject to the direction of Landlord. Tenant shall give Landlord reasonable prior notice of the installation of all such telegraph, telephone, communication, signal and electric connections, cabling and wiring whether or not Landlord's approval thereto and direction thereof is required. Landlord reserves the right to designate and control the entity or entities providing telephone wire installation, repair and maintenance in the Building to the Building telephone closets on the various floors and to reasonably restrict and control access to such Building telephone closets. In the event Landlord designates a particular vendor or vendors to provide such telephone wire installation, repair and maintenance up to the Building telephone closets, Tenant agrees to abide by and participate in such program provided that the cost thereof is competitive with that of other vendors offering such services. Tenant may select the vendor or vendors and service providers with respect to the installation, repair and maintenance of other communication and signal cabling and wiring subject to the general direction of Landlord and such reasonable rules and regulations as may be established by Landlord for the protection of the Building and its efficient, high-quality and harmonious operation.

(F) Tenant must list all furniture and fixtures to be taken from the Building at any time and from time to time prior to the expiration of the Term hereof upon a form furnished by Landlord. Such list shall be presented at the office of the Building for registration (or if closed, to the security officer) before acceptance by the security officer or elevator operator.

(G) Tenant, its licensees, agents, servants, and employees and guests shall not encumber or obstruct sidewalks, entrances, passages, courts, corridors, vestibules, halls, elevators, stairways or other common areas in or about the Building.

(H) No bicycle or other vehicle and no animal (except seeing eye dogs) shall be allowed in the showrooms, offices, halls, corridors or any other parts of the Building.

(I) Tenant shall not allow anything to be placed against or near the glass in the partitions between the Premises and the halls or corridors of the Building which shall diminish the light in the halls or corridors.

(J) Tenant shall not allow anything to be placed on the outer window ledges of the Premises, nor shall anything be thrown by Tenant or its employees out of the windows of the Building. Tenant shall keep all windows closed.

(K) No additional locks shall be placed upon any entry doors to the Premises and no locks shall be changed without the prior written consent of Landlord, which shall not be unreasonably withheld. Upon termination of this Lease, Tenant shall surrender all keys and key cards of the Premises and of the Building and give to Landlord the explanation of the combination of all locks on safes or vault doors in the Premises. Tenant may, at its discretion and upon written notice to Landlord, cause certain interior spaces to be secured by locks and other mechanisms exclusively controlled by Tenant. Tenant agrees that Landlord shall not be responsible for any damage caused to Tenant's space should Landlord have to forcibly enter such exclusively controlled areas in case of an emergency and Tenant agrees to indemnify Landlord for any damage or injury caused by Landlord's failure or delay in obtaining access to such exclusively controlled areas.

(L) The building manager shall at all times keep a pass key and be allowed admittance to the Premises to cover any emergency, fire or other casualty that may arise and in other appropriate instances. Landlord, Landlord's agents and/or any Lender shall have the right to enter the Premises at all reasonable hours upon prior notice (except in case of an emergency) to examine the same.

(M) Unless otherwise advised by Landlord, neither Tenant nor its employees shall undertake to regulate the radiator controls or thermostats. Tenant shall report to the office of the Building whenever such thermostats or radiator controls are not working properly or satisfactorily.

(N) If Tenant desires shades or venetian blinds for outside windows, they must be furnished and installed at the expense of Tenant, and must be of such type, color and material as may reasonably be prescribed by Landlord.

(O) Tenant assumes full responsibility for protecting its space from theft, robbery and pilferage, which includes keeping doors locked and other means of entry into the Premises closed and secured.

(P) Tenant shall not peddle, canvass, solicit or distribute handbills or flyers on or about the Property except as specifically authorized by Landlord.

(Q) Tenant shall not sell food of any kind or cook in the Building, unless in coffee-makers or microwave or similar ovens installed and maintained by Tenant for use by its employees and invitees, and subject to any reasonable applicable Building rules and regulations and all applicable laws. Tenant may serve complimentary foods to its guests and employees provided that it shall first comply with all applicable laws, ordinances, codes and regulations.

(R) Water in the Premises shall not be wasted by Tenant or its employees by tying or wedging back the faucets of the washbowls or otherwise.

(S) Tenant shall use neither the name of the Building (except as the address of its business) nor pictures of the Building in advertising or other publicity or for any other purpose without Landlord's prior written consent.

(T) Tenant shall cooperate with all reasonable security procedures and policies implemented by Landlord.

(U) Tenant shall use all reasonable efforts, in dealing with its employees, to cooperate with and enforce Landlord's policies prohibiting the use of the public areas, inside and out, of the Building as smoking areas.

(V) Landlord reserves the right upon prior notice to Tenant to make such other and further reasonable rules and regulations as in Landlord's reasonable judgment may from time to time be needed for the safety, care and cleanliness of the Premises and the Building and for the preservation of good order therein so long as such further rules and regulations do not diminish any rights heretofore expressly granted to Tenant in this Lease. Landlord agrees that all such rules and regulations shall be enforced in a manner that does not singularly target Tenant and no other tenants similarly situated or engaged in conduct similar to that of Tenant.

28. MISCELLANEOUS. Tenant and Landlord further covenant with each other that:

(A) All rights and remedies of Landlord and Tenant under this Lease shall be cumulative, and none shall exclude any other rights and remedies allowed by law.

(B) The word "Tenant" wherever used herein shall be construed to mean tenants in all cases where there is more than one tenant, and the necessary grammatical changes required to make the provisions hereof apply either to corporations or individuals, men or women, shall in all cases be assumed as though in each case fully expressed. If there is more than one tenant, all obligations and liabilities hereunder imposed upon Tenant shall be joint and several.

(C) This Lease and the rights of Tenant hereunder shall be and are subject and subordinate at all times to any ground leases or master leases and to the lien of any mortgages or deeds of trust now or hereafter in force against the Property or the Building, or both of them, and to all advances made or hereafter to be made upon the security thereof, and to all renewals, modifications, amendments, consolidations, replacements and extensions thereof. The holder of any note secured by a mortgage or deed of trust, or any mortgagee or beneficiary under a deed of trust on the Property or Building (collectively, "Lender"), however, may elect to have this Lease be superior to its mortgage or deed of trust. This provision is self-operative and no further instrument of subordination or priority shall be required. In confirmation of such subordination or priority, Tenant shall promptly execute such further instruments as may be reasonably requested by Landlord and in the event Tenant fails to do so within twenty (20) days after demand in writing by certified or registered mail, Landlord shall deliver to Tenant a further written request, and if Tenant fails to execute and deliver such instruments within five (5) business days after receipt of such further notice from Landlord, such failure shall constitute a material Default hereunder and shall

entitle Landlord to exercise the remedies provided by Article 15 hereof (without any notice otherwise required by said Article 15. Tenant shall give Lender written notice of any Default by Landlord under this Lease at the same time Tenant gives notice thereof to Landlord, and Lender shall have a reasonable time (but no obligation) after expiration of Landlord's cure period within which to cure any such Default prior to Tenant taking any action to remedy a Default by Landlord hereunder or to cancel this Lease due to a Default by Landlord

(D) Each of the provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit of, not only Landlord and Tenant, but also their respective heirs, legal representatives, successors and assigns, provided, this clause shall not permit any assignment contrary to the provisions of Article 12 hereof.

(E) All of the representations and obligations of Landlord and Tenant are contained herein and no modification, waiver or amendment of this Lease or any of its conditions or provisions shall be binding upon Landlord unless in writing signed by a duly authorized officer of Landlord's agent or upon Tenant unless in writing and signed by a duly authorized officer of Tenant.

(F) All amounts due and payable from Tenant under this Lease or under any work order or other agreement relating to the Premises shall be considered as rent and, if unpaid when due, shall bear interest from such date until paid at the maximum legal rate of interest available, provided such rate of interest shall not exceed two percent (2%) per annum plus the Prime Rate as announced by the Northern Trust Bank in Chicago, Illinois and in effect on the first day of each calendar quarter, determined and subject to change as of the first day of each calendar quarter.

(G) Submission of this instrument for examination shall not bind Landlord or Tenant in any manner, and no lease or obligation on Landlord or Tenant shall arise until this instrument is signed and delivered by Landlord and Tenant.

(H) No rights to light or air over any property, whether belonging to Landlord or any other persons, are granted to Tenant by this Lease.

(I) The laws of the State of Illinois shall govern the validity, performance and enforcement of this Lease. The invalidity or unenforceability of any provision of this Lease shall not affect or impair any other provision.

(J) Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to commit or engage in any act which can, shall or may encumber the title of Landlord.

(K) In case Landlord or any successor owner of the Property or the Building shall convey or otherwise dispose of any portion thereof to another person, such other person shall in its own name thereupon be and become Landlord hereunder and shall assume fully in writing and be liable upon all liabilities and obligations of this Lease to be performed by Landlord which first arise

after the date of conveyance, and such original Landlord or successor owner shall, from and after the date of conveyance, be free of all liabilities and obligations not then incurred.

(L) Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant, and the recording thereof in violation of this provision shall constitute a material breach of this Lease.

(M) Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venture or any association or relationship between Landlord and Tenant other than that of landlord and tenant.

(N) Landlord shall have the right to apply payments received from Tenant pursuant to this Lease (regardless of Tenant's designation of such payments) to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord in its sole discretion may elect.

(O) All indemnities, covenants and agreements of Landlord and Tenant, respectively, contained herein which inure to the benefit of the other party shall be construed to inure also to the benefit of the other party's officers, directors, managers, beneficiaries, partners, members, agents and employees.

(P) Unless otherwise notified in writing by Landlord, Tenant may rely upon notices and directions from officers of Merchandise Mart Properties, Inc., Landlord's management agent for the Building and Property, as the authorized action of Landlord.

(Q) If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that (s)he has full authority to do so and that this Lease binds the corporation.

(R) Notwithstanding anything to the contrary herein contained, Tenant shall not knowingly permit, and Tenant shall not knowingly permit any other occupant of the Premises to permit, the Premises, or any portion thereof, to be used or occupied by or for the benefit of any person or entity that the Office of Foreign Assets Control of the United States Department of the Treasury has listed on its list of Specially Designated Nationals or Blocked Persons.

29. ATTORNMENT. Upon request of any Lender, Tenant will agree in writing that no action taken by such Lender shall terminate this Lease or invalidate or constitute a breach of any of the provisions hereof and Tenant will attorn to such Lender, or to any purchaser of the Property or Building, at any foreclosure sale or sale in lieu of foreclosure, for the balance of the Term of this Lease and on all other terms and conditions herein set forth. Tenant by entering into this Lease, covenants and agrees that (a) upon the written direction of Lender it shall pay all rents arising under this Lease as directed by such Lender; and (b) in the event such Lender enforces its rights under the mortgage or deed of trust due to a default by Landlord, and this Lease is not extinguished by a foreclosure of the mortgage or deed of trust, Tenant will, upon request of any person succeeding to the interest of Landlord in the Property ("successor in interest") as the result of said enforcement, automatically attorn to such successor in interest, without any change in

terms or other provisions of this Lease; provided, however, that said successor in interest shall not be: (i) liable for any previous act or omission of any prior landlord, including Landlord, under this Lease; (ii) bound by any payment of rent or additional rent for more than one month in advance, except payments in the nature of security, but only to the extent such payments have been delivered to such successor in interest; (iii) bound by any modifications to the Lease (including any agreement providing for early termination or cancellation of the Lease) made without any requisite consent of the Lender or any such successor in interest; (iv) bound by any covenant or obligation of Landlord to perform, undertake or complete any work in the Premises or to prepare it for occupancy; (v) bound by any obligation to make any payment to Tenant or to grant any credits, except for service, repairs, maintenance and restoration provided for under this Lease to be performed by Landlord after the date of Tenant's attornment; (vi) responsible for any funds, including security deposits, owing to Tenant; or (vii) subject to any demands, credits, claims, counterclaims, offsets or defenses which Tenant might have against any prior landlord, including Landlord.

30. ESTOPPEL CERTIFICATE. Tenant agrees that from time to time (but not more frequently than once each year and also upon commencement of the Term and in connection with any sale or refinancing of the Building and upon any request by Lender) upon not less than fifteen (15) business days' prior request by Landlord, Tenant or Tenant's duly authorized representative having knowledge of the following facts shall deliver to Landlord a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications that the Lease as modified is in full force and effect); (b) the dates to which Base Rent, rent adjustments and other sums payable under this Lease have been paid; (c) that, to Tenant's actual knowledge (without the requirement of any independent investigation whatsoever), neither Landlord nor Tenant is in Default under any provision of this Lease, or, if in Default, the nature thereof in reasonable detail; (d) that, to Tenant's actual knowledge (without the requirement of any independent investigation whatsoever), there are no offsets or defenses to the payment of Base Rent, additional rent or any other sums payable under this Lease, or if there are any such offsets or defenses, specifying such in reasonable detail; (e) that, to Tenant's actual knowledge (without the requirement of any independent investigation whatsoever) all improvement work, if any, relating to the Building or the Premises required by this Lease to be performed by Landlord has been completed (or if not completed, a description of incomplete work in reasonable detail); (f) that Tenant is in occupancy of the Premises; (g) that all allowances, if any, required by this Lease to be provided by Landlord to Tenant have been paid in full (or if not paid in full, a description of unpaid amounts in reasonable detail); and (h) such other matters relating to the status of the Lease as may be reasonably requested. In the event Tenant fails to deliver such statement to Landlord within such 5 business day period, such failure, if not cured within an additional 5 business day period after delivery of written notice thereof, shall constitute a Default hereunder and entitle Landlord to exercise the remedies provided by Article 15 hereof (without any notice otherwise required by said Article 15).

Landlord agrees that from time to time upon not less than fifteen (15) business days prior written request by Tenant (but not more frequently than once each year), and upon not less than fifteen (15) days prior written request by any approved assignee or subtenant in connection with the execution and delivery of any assignment or sublease, Landlord or Landlord's duly authorized

representative having knowledge of the following facts shall deliver to Tenant a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications that the Lease, as modified, is in full force and effect); (b) the dates to which the Base Rent, rent adjustments and other sums payable under this Lease have been paid; (c) that, to Landlord's actual knowledge (without the requirement of any independent investigation whatsoever), neither Landlord nor Tenant is in default under any provision of this Lease, or, if in default, the nature thereof in reasonable detail; and (d) such other matters relating to the status of the Lease as may be reasonably requested.

31. BROKERS. Tenant represents and warrants to Landlord that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker other than those on behalf of Julien J. Studley, in the negotiation or making of this Lease, and Tenant agrees to indemnify and hold harmless Landlord from the claim or claims of any other broker or brokers claiming to have interested Tenant in the Building or Premises or claiming to have caused Tenant to enter into this Lease. Landlord shall be responsible for the commission payable pursuant to separate agreement(s) between Landlord and such broker(s) and agrees to indemnify and hold harmless Tenant from the claim or claims of any other brokers claiming to have caused Landlord to enter into this Lease.

32. SECURITY DEPOSIT.

A. As additional security for the full and prompt performance by Tenant of all of Tenant's obligations hereunder, Tenant shall provide Landlord with an unconditional irrevocable letter of credit in favor of Merchandise Mart Properties, Inc., as agent of Landlord, from a financial institution acceptable to Landlord (which form allows for partials draws thereon) in the initial amount of $500,000.00 and otherwise in form and substance reasonably satisfactory to Landlord ("LOC"), which LOC may be drawn upon by Landlord and retained, used or applied by Landlord for the purpose of curing any monetary Default or Defaults of Tenant under this Lease. The LOC or any portion thereof not drawn upon, retained, used or applied by Landlord in accordance with this Lease shall be promptly returned to Tenant following the termination of this Lease or any extensions or renewals thereof. If, in accordance with the terms of this Lease, Landlord draws upon such LOC to retain or apply such amounts for the curing of monetary Defaults, Tenant shall, within ten (10) days after written notice from Landlord, replace or supply another letter of credit so that the LOC is not less than the amount set forth above. The use, application or retention of amounts drawn under the LOC in accordance with this Lease or the act of drawing on the LOC, or any part thereof, by Landlord shall not prevent Landlord from exercising any other right or remedy provided by this Lease or by law and shall not operate as a limitation upon any recovery to which Landlord may be entitled. Notwithstanding anything else herein to the contrary, provided that (a) Tenant is not then in Default, and (b) Landlord has not made any prior draws upon the LOC, then the LOC shall automatically reduce upon the first day of the second Lease Year, and each Lease Year thereafter while there is a balance remaining on the LOC by the amount equal to the sum of the Base Rent payments actually made by Tenant to Landlord in accordance with, and subject to, this Lease in the preceding 12 month period. Provided that Tenant is not then in Default and has paid all Rent owing at that point in accordance with and subject to the terms of this Lease, and Landlord has not made any prior

draws upon the LOC, then in such event the LOC shall be immediately released and returned by Landlord to Tenant and terminate at the end of the third Lease Year.

B. Tenant further agrees that, in addition to all of the rights and remedies provided to Landlord pursuant to Article 15 hereof, whether or not this Lease or Tenant's right to possession hereunder has be terminated, (a) in the event Tenant is in Default under any of the terms, covenants and conditions of this Lease and Tenant has failed to replenish the Letter of Credit in accordance with the terms hereof, or (b) in the event Tenant has filed (or there has been filed against Tenant) a petition for bankruptcy protection or other protection from its creditors under any applicable and available law, then Landlord may at once and without notice to Tenant be entitled to draw down on the entire amount of the Letter of Credit then applicable and hold such amounts as a cash security deposit in accordance with the terms hereof and to reimburse Landlord for any damages suffered by Landlord as a result of any Default by Tenant hereunder.

C. The foregoing Letter of Credit shall provide for an original expiration date of one year from the Commencement Date, and shall be automatically extended without amendment (subject to the reductions described above) for additional successive one-year periods from the original expiration date or any future expiration date thereof for the Term of the this Lease, unless not less than thirty (30) days prior to any such expiration date the bank sends to Landlord by certified/registered mail, return receipt requested or overnight courier written advice that the bank has elected not to consider the LOC renewed for any such additional one-year period. In the event such bank so advises Landlord that such LOC will not be so renewed, Landlord shall promptly thereafter notify Tenant thereof in writing, and Tenant shall obtain a substitute LOC from a bank reasonably approved by Landlord meeting all of the terms and conditions described in Paragraph A above, but reduced in amount pursuant to any applicable terms set forth above, which substitute LOC ("Substitute LOC") shall be reasonably satisfactory to Landlord and delivered to Landlord no later than twenty (20) days prior to the expiration date of such LOC then in effect. In the event Tenant so fails to deliver a substitute LOC as required herein, Landlord shall in such instance have the right without notice to Tenant to immediately draw down on the entire amount of the LOC then available to Landlord; in such instance Landlord shall retain such resulting sum as a cash security deposit (which sum shall be reduced, so long as Tenant is not then in Default hereunder, to reflect the reduction schedule applicable if Landlord were holding the LOC described in Paragraph A above) and Landlord shall have the right to use such cash security deposit to the same extent that Landlord would be entitled to draw down on the LOC pursuant to the terms of Paragraph A above. Landlord shall not, unless required by law, keep the security deposit separate from its general funds or pay interest thereon to Tenant. As between Landlord and Tenant only, all draws under the LOC (or cash security deposit, as the case may be) and rights of Landlord to apply the proceeds of any such draw or draft shall be subject to the provisions of this Lease, including all applicable notice and cure periods provided for in Article 15 hereof, if any except that where this Article 32 states no notice to Tenant is required, Landlord is not obligated to give any notice under Article 15 prior to taking any action provided for in this Article 32.

33. SHELL AND CORE WORK, LANDLORD'S TURN-KEY WORK, & LANDLORD'S COMMON AREA WORK.

(A) Shell and Core Work. In addition to the Landlord's Turn-Key Work (defined below) and the other Landlord's Work defined herein below, and not subject to the Cap Amount defined below, on or before the Commencement Date, Landlord shall complete at its sole cost and expense all of the base building work included in the Shell and Core Work described in Exhibit "F" attached hereto and made a part hereof (the "Shell and Core Work") with respect to the Premises.

(B) Landlord's Turn-Key Work.

(1) On or before the Commencement Date, except as otherwise stated herein, Landlord shall construct and install the improvements to the Premises, up to a maximum cost not to exceed Eight Hundred and Twenty-Five Thousand Dollars ($825,000) (the "Cap Amount") in accordance with: (a) the preliminary drawings approved by Landlord and Tenant, prepared by Torchia Associates, Inc. ("Tenant's Architect"), dated August 10, 2004 ("Preliminary Drawings"); (b) the scope of work dated August 24, 2004, the "Allscripts Cap Amount Breakdown" and the "Construction Estimate Project Summary" (collectively known as "Specifications"); (c) the construction schedule dated August 25, 2004 ("Schedule") (the Preliminary Drawings, the Specifications and the Schedule are attached hereto and made part hereof in Exhibit "G"); and (d) the final plans and working drawings for the construction of the Premises which will be prepared by Tenant's Architect on behalf of Tenant, based on and consistent with the Preliminary Drawings, Specifications and Schedule (the "Final Plans") (the work and improvements described in (a) – (d) above is collectively "Landlord's Turn-Key Work"). All costs of work necessary to complete Landlord's Turn-Key Work in accordance with the Final Plans that exceed the Cap Amount shall be at Tenant's sole cost and expense.

(2) The parties acknowledge that in order for Landlord's Turn-Key Work to be substantially completed, time is of the essence for all dates stated in the Schedule, including but not limited to (a) the deadline for Tenant signing this Lease on September 17, 2004; (b) the due date for the Final Plans to be prepared and delivered to Landlord for Landlord's review and approval (which approval shall not be unreasonably withheld or delayed) on September 17, 2004; (c) the construction bidding process held between September 15 – 30, 2004; (d) the deadline for awarding the construction contract on October 6, 2004; and (e) the deadline for beginning the construction work on October 11, 2004. Upon approval of the Final Plans by Tenant (not to be unreasonably withheld or delayed), those Final Plans shall replace, be utilized and relied upon in lieu of the Preliminary Drawings. Any changes to the Final Plans requested by Tenant after September 17, 2004, or the date that such plans are submitted to Landlord, shall be at Tenant's sole cost and any such changes that delay completion of Landlord's Turn-Key Work beyond the Possession Date shall be considered a Tenant Delay.

(3) Landlord shall furnish, up to the Cap Amount and except as otherwise noted herein, the material, labor and equipment required to complete Landlord's Turn-Key Work, pursuant to and as described by the Preliminary Drawings and Specifications per the Schedule, as revised by the Final Plans. All Landlord's Work to be performed under this Section 33 shall be timely

constructed in a good and workmanlike manner, in accordance with the Final Plans and any other applicable provisions of this Lease, and completed in accordance with all applicable statutes, ordinances and building codes, governmental rules, regulations and orders relating to construction of Landlord's Work. Landlord shall diligently proceed with the construction of Landlord's Work and Substantially Complete the same so that the Possession Date occurs on or before December 17, 2004, subject to extension on account of Force Majeure events and Tenant Delays.

(4) Tenant Allowances.

(i) Furniture Allowance. As part of Landlord's Turn-Key Work, Landlord agrees to pay to Tenant an allowance in an amount One Hundred Thirty Thousand Four Hundred Seventy Dollars ($130,470) ("Furniture Allowance") which amount is set forth in the "Cap Amount Breakdown" attached hereto in Exhibit "G" and is included in and part of the Cap Amount. The Furniture Allowance shall be applied towards the purchase and installation of furniture for the Premises, which Landlord will assist Tenant in purchasing. The Furniture Allowance shall be applicable only in connection with the initial preparation for occupancy of the Premises. Should Tenant choose not to use a portion of the Furniture Allowance for the purchase and installation of furniture or if any cost savings is realized, Tenant may apply such remaining amount or cost savings to any other cost or expense related to Landlord's Turn-Key Work.

(ii) Skylight Allowance. As part of Landlord's Turn-Key Work, Landlord agrees to provide an allowance up to Seventy-Three Thousand Five Hundred Dollars ($73,500), which amount is set forth in the "Cap Amount Breakdown" attached hereto in Exhibit "G" and is included in and part of the Cap Amount, to be used for costs for skylights and drywall soffits to be chosen by Tenant ("Skylight Allowance"). All future maintenance and repair related to the skylights and soffit will be done by Landlord upon Tenant's request and at Tenant's sole expense. If Tenant remains a tenant in the Building for at least six (6) years, Tenant shall not be responsible for paying to remove the skylights that have been installed pursuant to this paragraph; however, under no circumstances will Tenant be responsible for removing or paying to remove the existing skylight in the Premises. All payments for such removal, if required, must be paid to Landlord prior to Tenant vacating the Premises. Should Tenant choose not to use a portion of the Skylight Allowance for skylights or soffit as discussed herein or if any cost savings are realized, Tenant may apply such remaining amount or any cost savings to any other cost or expense related to Landlord's Turn-Key Work.

(iii) It shall be a condition of Landlord's obligation to pay any installment of either the Furniture Allowance or Skylight Allowance for work performed by any contractor or goods provided by any supplier, other than those engaged by Landlord, that Tenant shall provide or cause to be provided to Landlord invoices establishing the actual cost of items purchased and labor provided, as well as appropriate lien waivers, all in form and content reasonably satisfactory to Landlord. It shall be a further condition to Landlord's obligation to pay or credit any amount of either the Furniture Allowance or Skylight Allowance at any time that

Tenant is not then in Default under any of material terms, covenants and conditions of this Lease. The Furniture Allowance and Skylight Allowance shall be advanced as costs are incurred, subject to customary retainage, if applicable.

(C) Landlord's Common Area Work.

Landlord also agrees to cause, at Landlord's sole cost and expense above and beyond the Cap Amount, the common area of the 20 th Floor of the Building from the elevator bank to the Premises to be improved to a higher standard that exists as of the date of this Lease ("Common Area Improvements"). In furtherance thereof, Landlord shall cause the completion of the Common Area Improvements, which shall include, without limitation, the following:

(1) re-painting and re-carpeting said common area;

(2) widening of the existing common corridor to create a more open presence and direct access to the Premises; and

(3) subject to an allowance from Landlord in an amount not to exceed $500.00, construction of signage from Tenant along the wall leaving from the elevator bank to the Premises.

In addition, Landlord shall investigate and determine whether the existing handicap lift/ramp can be removed (or relocated) in a in a feasible and cost-effective manner from the common area of the 20th floor. If such removal (or relocation) is feasible for a reasonable cost in Landlord's sole determination, Landlord agrees to implement such removal (or relocation).

(D) Neither Landlord nor its agents give any warranty as to the Landlord's Work described in this Article 33, however, Landlord agrees to assign to Tenant any warranties that Landlord is given for such Landlord's Work.

All of the work described in this Article 33 shall be deemed "Landlord's Work" for all purposes of this Lease.

34. OPTIONS TO EXTEND TERM. Subject to the terms of this Article 34, the Term may be extended, at the option of Tenant, for one (1) successive period of five (5) years, such period being herein sometimes referred to as an "Extended Term" (and constituting part of the "Term"), as follows:

(A) The option to extend the Term for an Extended Term must be exercised by Tenant by (1) delivery to Landlord, not more than thirty (30) months and not less than eighteen (18) months prior to the commencement of the applicable Extended Term, of a non-binding written notice of Tenant's good faith intent to exercise such option and (2) delivery to Landlord of a binding written notice exercising such option no less than twelve (12) months prior to the commencement of the applicable Extended Term; provided, however, in no event shall such binding written notice be required to be delivered earlier than fifteen (15) business days after the final determination of

Extension Term Rent pursuant to this Article or, if applicable, Article 35 hereof. Tenant shall not have the right to extend the Term beyond the last day of the One Hundred and Eightieth (180) full calendar month of the Term (as extended pursuant to this Article 34). Any termination of this Lease or any termination of Tenant's right of possession hereunder during the initial Term hereof or during an Extended Term shall terminate all rights to extend granted hereunder. If Tenant shall fail to give Landlord timely notice of its exercise of an option herein contained, Tenant shall be deemed to have waived such option to extend the Term hereof and such option shall thereupon become null and void.

(B) The Extended Term shall be on the same terms, covenants and conditions of this Lease, except for the provisions of Articles 33 and 34 hereof, and except for the determination of Base Rent as hereinafter provided. The provisions of Article 4 hereof providing for the payment of rent adjustments with respect to increases in Operating Expenses and Real Estate Related Taxes shall be applicable to any Extended Term, provided that the Base Year used in the calculation of such rent adjustments in any Extended Term shall be the calendar year in which such Extended Term begins.

(C) The Base Rent during the Extended Term (herein referred to as "Extension Term Rent") shall be the greater of (1) the sum of (a) the then applicable Base Rent plus (b) the then applicable rent adjustments in respect of Operating Expenses and Real Estate Related Taxes payable hereunder immediately prior to the Extended Term, and (2) the Fair Market Rent (as defined in Article 35 hereof) as determined in advance but as of the first day of the applicable Extended Term rather than as of the date such determination is made; provided, however, that the calculation so made shall be final and shall not be remade on the first day of the Extended Term. The calculation shall reflect the full length of the Extended Term.

(D) Landlord shall provide Tenant with Landlord's determination of Fair Market Rent, to be paid by Tenant no later than one month after delivery of Tenant's non-binding written notice under Paragraph (A) above. If (1) Landlord determines that the Fair Market Rent is greater than the sum of (a) the then applicable Base Rent plus (b) the then applicable rent adjustments in respect of Operating Expenses and Real Estate Related Taxes payable hereunder immediately prior to the Extended Term, and (2) Tenant notifies Landlord in writing within ten (10) business days after delivery of Landlord's determination of the Fair Market Rent that Tenant contests Landlord's determination, and (3) the parties cannot within ten (10) business days after delivery of such notice by Tenant ("the Negotiation Period") reach agreement on the Fair Market Rent payable during any the Extended Term, then the Fair Market Rent shall be determined in accordance with the procedures set forth in Article 35 hereof.

(E) Tenant may extend the Term only as to all of the Premises as are demised to Tenant on the date of Tenant's exercise of such applicable option to extend.

(F) Tenant's rights to exercise its option to extend the Term of this Lease for the Extended Term are subject to the condition that Tenant is not in Default under any of the terms, covenants or conditions of this Lease at the time that Tenant delivers its written notice to Landlord of the exercise of any such option to extend for an Extended Term, or upon the commencement of

such Extended Term (provided the foregoing shall not affect or limit Landlord's rights to enforce any Defaults of Tenant pursuant to Article 15 hereof). Notwithstanding the foregoing, if the existence of any such Default shall, pursuant to the foregoing, make ineffective the exercise of such option, such exercise shall nevertheless become effective as of the originally scheduled date if such Default is cured within the earlier of (i) any applicable cure or grace period specified in Article 15 hereof or (ii) thirty (30) days after delivery of notice of such Default by Landlord to Tenant.

(G) In the event Tenant exercises any option pursuant to this Article 34, Tenant shall accept the Premises in "as is" condition.

(H) In the event Tenant exercises any option pursuant to this Article 34, Tenant and Landlord agree to enter into an amendment to this Lease, in a form and substance reasonably acceptable to the parties, setting forth the terms applicable to such Extended Term within ninety (90) days after the date Tenant gives binding notice of its exercise of an option to extend the Term of this Lease for an Extended Term.

(I) The option to extend granted pursuant to this Article 34 is personal to the initial Tenant (and any Successor or Affiliate to whom this entire Lease has been assigned in compliance with Article 12) and may not be exercised by or for the benefit of any other party nor may the option to extend be exercised by Tenant at any time that any of the Premises then demised hereby are subject to an assignment or sublease. Any termination of this Lease or of Tenant's right to possession under this Lease shall extinguish and cancel all rights of Tenant under this Article 34.

35. FAIR MARKET RENT; ARBITRATION PROCEDURES.

(A) "Fair Market Rent" for the Premises with respect to the Extended Term shall mean the fair rental, as of the date for which such Fair Market Rent is being calculated, per annum per rentable square foot for comparable space for a comparable term, by reference to comparable space with a comparable use in the Building, and in other buildings comparable to the Building in quality and location (but excluding those leases where the tenant has an equity interest in the property), where the landlord has had a reasonable time to locate a tenant who rents with the knowledge of the uses to which the Premises can be adapted, and neither landlord nor the prospective tenant is under any compulsion to rent. The Fair Market Rent shall be determined on the basis of a fixed base rent per square foot without rent adjustments of any kind (other than rent adjustments with respect to increases in Operating Expenses and Real Estate Related Taxes as provided in Article 4 hereof and, with respect to Fair Market Rent for the proposed Extended Term, using as a Base Year the calendar year in which the respective Extended Term commences), step increases or otherwise (the economic value of any such adjustments then customarily applicable in the market to be reflected instead in the determination of such base rent). The Fair Market Rent shall take into account and reflect: (i) any tenant improvement allowances, rent abatements and all other concessions, allowances and inducements of any kind then customarily available in the market (and for this purpose Tenant shall be deemed to have received such concessions, allowances and inducements in respect of the Premises for the Extended Term, and such items shall be reflected in such fixed base rent as if the same had been given to Tenant); (ii) market rate brokerage commissions with respect to the Extended Term as if it were a new lease (and for this purpose Landlord shall be deemed to

have paid such commissions, which shall be reflected in such fixed base rent as if the same had been paid by Landlord); and (iii) the savings to Tenant resulting from Tenant not having to relocate its operations.

(B) In the event Tenant disagrees with Landlord's determination of Fair Market Rent at any time and the parties thereafter reach agreement on such Fair Market Rent (and resulting Extension Term Rent) during any Negotiation Period described in Article 35 hereof, such Fair Market Rent (and resulting Extension Term Rent) shall be reflected in the lease amendment required to be executed by Landlord and Tenant pursuant to Article 35 hereof.

(C) In the event Landlord and Tenant are unable to reach agreement on the calculation of Fair Market Rent during any Negotiation Period described in Article 35 hereof, then in any such event the Fair Market Rent shall be determined in accordance with the following arbitration procedures:

(i) Within five (5) days after the expiration of any such Negotiation Period, Landlord and Tenant shall each simultaneously submit to the other in a sealed envelope its good faith estimate of the Fair Market Rent. If the higher of such estimate is not more than one hundred five percent (105%) of the lower of such estimates, then the Fair Market Rent shall be the average of the two estimates. Otherwise, within five (5) days after such exchange of estimates, either Landlord or Tenant may submit the question to arbitration in accordance with clause (ii) below, by delivery of written notice to the other exercising such right within such five (5) day period.

(ii) Within seven (7) days after receipt of such notice, Landlord and Tenant shall select, to act as an arbitrator, an independent MAI appraiser with experience in real estate activities, including at least ten (10) years' experience in leasing and/or development or appraising office space in the downtown Chicago area. If the parties cannot agree on such an appraiser, each party shall then within a period of seven (7) days thereafter select an independent MAI appraiser meeting the previously-described criteria, and within a third period of seven (7) days after the appointment of the last of the two appraisers to be appointed, the two appointed appraisers shall select a third appraiser meeting the aforementioned criteria, and all three of such appraisers shall independently determine the Fair Market Rent (each such independent determination of the Fair Market Rent shall be called an "Appraised Rent"). If one party shall fail to make an appointment of an appraiser within the foregoing seven (7) day period, then the appraiser chosen by the other party shall choose the other two appraisers.

(iii) Once the appraiser (or appraisers if the parties cannot agree on a single appraiser) has been selected as provided in clause (ii) above, then, as soon thereafter as practicable but in any case within fourteen (14) days after the selection of such appraiser (or the last of such appraisers, as the case may be) the single appraiser's Appraised Rent or the average of the two closest Appraised Rents (in the case of more than one appraiser) shall be calculated in accordance with the criteria described in Paragraph (A) of this Article 35 (such average shall be called the "Average Appraised Rent") and the appraiser (or appraisers, as

the case may be) shall select one of the two estimates of Fair Market Rent submitted by Landlord and Tenant pursuant to Article 35(C)(i), which shall be the one that is closer to the Appraised Rent or Average Appraised Rent, as the case may be. Landlord and Tenant agree that the estimates submitted by Landlord and Tenant to each other shall not be furnished to the appraiser(s) until the appraisers have informed Landlord and Tenant of the Appraised Rent or Average Appraised Rent, as the case may be, as determined by them. The value so selected shall be the Fair Market Rent (which shall be adjusted pursuant to Article 35(C) to reflect the Extended Term Rent payable with respect to the option then exercised by Tenant). The decision of the appraiser(s) as to the Fair Market Rent shall be submitted in writing to, and be final and binding on, Landlord and Tenant. Landlord and Tenant shall share equally the costs of the appraisers who participated in the foregoing procedure. Any fees of any counsel engaged directly by Landlord or Tenant, however, shall be borne by the party obtaining such counsel.

Notwithstanding the foregoing, at any time prior to the last to occur of Landlord's or Tenant's selection of an arbitrator pursuant to clause (ii) above, Tenant shall have the option to withdraw from the arbitration by written notice to Landlord.

36. COVENANT OF QUIET ENJOYMENT. Landlord covenants that Tenant, upon paying the Base Rent, rent adjustments and other payments provided for herein, and upon keeping, observing and performing all other terms, covenants, conditions and agreements herein contained on the part of Tenant to be kept, observed and performed, shall, during the Term, as extended, peaceably and quietly have, hold and enjoy the Premises subject to the terms of any subordination and non-disturbance agreement and the rights of any mortgagee contained therein and the terms, covenants, conditions and agreements hereof free from hindrance by Landlord or any other person claiming by, through or under Landlord.

37. TERMINATION RIGHT. Tenant shall have and is hereby granted the option exercisable once and only once during the Term of this Lease to terminate this Lease in whole but not in part effective as of the last day of the sixth (6 th) Lease Year of the Term ("Termination Date"), subject to the following terms and conditions:

(A) Such option is exercisable upon delivery of a binding written notice to Landlord at any time not less than eighteen (18) months prior to the Termination Date.

(B) It shall be a condition to Tenant's exercise of the foregoing option that Tenant pay to Landlord (i) the Termination Fee (as defined below), one-half of which shall be due and payable at the time of delivery of the notice of termination described in 37(A) above and the remainder of which shall be payable on the last day of the fifth (5th) Lease Year; and (ii) any and all rent (including, without limitation, Base Rent and rent adjustments payable pursuant to Article 4 of this Lease) then due and payable hereunder. The "Termination Fee" shall be an amount equal to (x) the unamortized cost of Landlord's Work, abatement, and broker's commission, using a 10% interest factor, plus (y) the product of (1) the amount of monthly Base

Rent due Landlord hereunder for the calendar month in which the written exercise notice was delivered by Tenant, multiplied by (2) twelve (12).

(C) It shall be a condition to Tenant's exercise of the foregoing option that Tenant is not in Default of this Lease on the date Tenant delivers notice of its exercise of such option to Landlord or upon the effective termination date. Notwithstanding the foregoing, if the existence of any such Default prior to the scheduled effective termination date shall, pursuant to the foregoing, make ineffective the exercise of such option, such exercise shall nevertheless become effective as of the later of (i) the date of Tenant's cure of such Default or (ii) the originally scheduled effective date of termination, provided that in any case such Default is cured within the applicable cure or grace period specified in Article 14 hereof.

(D) On or before the Termination Date, Tenant shall surrender the Premises to Landlord in accordance with the terms of this Lease.

38. RIGHT OF FIRST OPPORTUNITY.

(A) In the event that from time to time at any time during the Term, any space located on the twentieth (20th) floor of the Building becomes available for leasing by third parties, Tenant shall have and is hereby granted the right to add such space to the Premises demised hereunder, subject, however, to the rights of any existing tenants in the Building as of the date of this Lease in and to such space, whether by rights of expansion, renewal or otherwise and also subject to Landlord's right to offer any such space for renewal or expansion to any tenant then occupying any portion of the space. Landlord shall notify Tenant in writing of the availability of such space from time to time and Tenant shall have thirty (30) days from receipt of such notice from Landlord within which to notify Landlord in writing of its acceptance of such offer to add such space to the Premises on all of the same terms and conditions of this Lease, except that the rent for such space shall be equal to the rate Landlord is then prepared to offer on such space in good faith to a third party.

(B) In the event Tenant does not so notify Landlord within said 30-day period of its acceptance of such offer and thereafter promptly enter into a lease amendment which adds such space to the Premises and adjusts the rent applicable to such space pursuant to Article 38 hereof and Tenant's Proportionate Share pursuant to Article 4 hereof, in accordance with the terms and conditions set forth in Landlord's notice and Paragraph (A) above, Landlord may thereafter lease such space to any other third party and Tenant shall have no further right or interest in such space. Notwithstanding anything in this Lease to the contrary, unless otherwise expressly agreed, Tenant agrees to accept any space offered to Tenant pursuant to this Article 38 in an "as is" broom clean condition, without any latent defects in the structure of the Building (including, without limitation, the exterior of the Building and the exterior windows of the Building).

(C) Any termination of this Lease or of Tenant's right to possession under this Lease shall extinguish and cancel all rights of Tenant under this Article 38. The right of first opportunity granted pursuant to this Article 38 is personal to Tenant (and any Successor or Affiliate to which this entire Lease has been assigned in accordance with Article 12) and may not be exercised by or for the benefit of any other party; nor may this right be exercised by Tenant if

any of the Premises shall be subject to any sublease or assignment or occupied by any person or entity other than Tenant (or a Successor or Affiliate, as defined in Article 12), either at the time Tenant delivers its written notice to Landlord of the exercise of such option or on the effective date such space is added to the Premises.

(D) Tenant's right to exercise its rights under this Article 38 is subject to the condition that Tenant is not in Default of this Lease at the time that Tenant delivers its written notice to Landlord of the exercise of any such right, or upon the addition of such space to the Premises (provided the foregoing shall not affect or limit Landlord's rights to enforce any Defaults of Tenant pursuant to Article 15 hereof). Notwithstanding the foregoing, if the existence of any such Default shall, pursuant to the foregoing, make ineffective the exercise of such right, such exercise shall nevertheless become effective as of the originally scheduled date if such Default is cured within the earlier of (i) any applicable cure or grace period specified in Article 14 hereof or (ii) thirty (30) days after delivery of notice of such Default by Landlord to Tenant.

39. CONFERENCE FACILITIES. During the Term of this Lease, Tenant shall have the right to use an available conference facility in the Building or an adjacent property, on a mutually agreeable schedule, at fifty percent (50%) of the then current room rate charged by Landlord to tenants of the Building for such facility (not to exceed four (4) half-days per calendar year). Tenant's rights hereunder to use such facility shall be subject to the availability of such facilities, and shall terminate at the end of each calendar year and such rights may not be rolled over to the next calendar year. Tenant acknowledges that Tenant's use of the above facilities is subject to reasonable scheduling by Landlord and may be subject to such reasonable rules and regulations uniformly enforced as Landlord may from time to time prescribe; and Tenant further agrees to pay Landlord for reasonable set up, beverage and/or audio/visual/teleconferencing services provided by Landlord at Tenant's request in connection with Tenant's use of such facilities at the then published rates for such services.

40. ENTIRE AGREEMENT. Except as expressly otherwise provided herein, this Agreement, together with all of the exhibits attached hereto, constitutes the entire understanding between Landlord and Tenant as to the subject matter hereof and supersedes all prior agreements between the parties hereto about such matters, and all of the representations and obligations of Landlord and Tenant are contained herein.

41. LIMITATION OF LANDLORD'S LIABILITY. Tenant agrees to look solely to Landlord's interest in the Property for the enforcement or payment of any judgment, award, order or other remedy under or in connection with this Lease or any related agreement, instrument or document or in respect of any matter whatsoever relating to this Lease, the Premises or the Property. No other assets of Landlord (or any assets of any members, partners, beneficiaries, shareholders, managers, officers, directors, employees or agents of Landlord) shall be subject to levy, execution or other procedures for the satisfaction of Tenant's remedies. No personal liability is assumed by, nor shall at any time be asserted or enforceable against Landlord, its members, any successor owner, or Merchandise Mart Properties, Inc., Landlord's managing agent, or their respective successors or assigns or the members, partners, beneficiaries,

shareholders, managers, officers, directors, employees or agents of any of them on account of this Lease or any covenant, undertaking or agreement of Landlord in this Lease contained.

IN TESTIMONY WHEREOF, the parties hereto have caused this instrument to be executed in duplicate as of the day and year first above written.

TENANT:

ALLSCRIPTS, LLC, a Delaware limited liability company

By: /s/ Lee Shapiro
Title: President

LANDLORD:

MERCHANDISE MART L.L.C., a Delaware limited liability company

By: Vornado Realty L.P., a Delaware limited partnership, its sole member

By: Vornado Realty Trust, a Maryland real estate investment trust, its general partner

By: /s/ Vornado Realty L.P. and Vornado Realty Trust
Its: Authorized Signatory

CERTIFICATE
(If Tenant is a Corporation)

I, _____, _____ Secretary of _____, Tenant, hereby certify that the foregoing Lease has been authorized by all necessary corporate action on behalf of Tenant, the officer(s) executing the foregoing Lease on behalf of Tenant was/were duly authorized to act in his/their capacities as and _____ and his/their action(s) are the action of Tenant.

(Corporate Seal)

_____ Secretary

EXHIBIT A

Premises

EXHIBIT B

Operating Expenses and Real Estate Related Taxes

Tenant: _____

Current Operating Year: _____

Tenant Square Feet: _____

		Per Square Foot
Operations	$	
Utilities (Excluding Tenant Share)		
General Housekeeping (Excluding Tenant Related)		
Security		
Insurance		
Repairs and Maintenance		
Operations Management		
Building Management (Excluding Showroom Promotional)	_____	
Total Operating Expenses	$	
Proportionate Share at _____%	$	$
Real Estate Related Taxes		
Taxes Paid		
Less refunds received in _____		
Plus Outside Services	_____	
Total Real Estate Related Taxes	$	
Proportionate Share at _____%	$	$
Tenant Cleaning	$_____	$_____
Total Expenses	$	$

Operating Expenses and Real Estate Related Taxes

Tenant: _____

Current Operating Year: _____ Base Year: Ending 12/31/_____

In accordance with your Lease dated _____ (as amended) Tenant is required to pay its proportionate share of any increase in Operating Expenses and Real Estate Related Taxes over the Base Year as follows:

Operations	
Operating Expenses for the year ended 12/31/_____	$
Base Year Amount	_____
Increase over Base Year	
Tenant's Proportionate Share	_____%
Annual Proportionate Share Operating Expense	$
Real Estate Related Taxes	
Real Estate Related Taxes for the year ended 12/31/_____	$
Base Year Amount	_____
Increase over Base Year	
Tenant's Proportionate Share	_____%
Annual Proportionate Share Real Estate Related Taxes	$
Tenant Cleaning	
Cleaning Cost for the year ended 12/31/_____	$
Base Year Amount	_____
Increase over Base Year	_____
Total Expenses	$_____
Amount Previously Billed	_____
Additional Amount Due	$

EXHIBIT C
PROTOCOL FOR ACM REMOVAL, THE MERCHANDISE MART

There are some asbestos-containing materials ("ACM") in some areas of The Merchandise Mart. MMPI has adopted and implemented an abatement and operations and maintenance program ("O & M Program"), a copy of which is available for review by Tenant, which sets forth certain procedures to be followed in connection with any Improvements to be made in the Building, in order to prevent disturbance to any ACM that may be encountered. Tenant acknowledges, and hereby expressly agrees to cause its agents, employees and contractors to comply at all times with, the O & M Program (as amended from time to time).

This Protocol describes the procedures followed and safeguards employed in connection with ACM abatement in common spaces, tenant spaces, and other areas of The Merchandise Mart.

The current view of the EPA, OSHA, and most experts is that ACM should be left in place until it presents a risk of fiber release. In the late 1980's all ACM identified by an independent survey firm as presenting a risk of such release was removed from the Mart, including ACM pipe covering in good condition that might have been subject to accidental damage because of its location in stairways or other traffic areas. Now MMPI removes ACM at the Building's cost as it becomes subject to possible damage or disturbance by maintenance, repairs, demolition, etc.

MMPI learns of the presence of ACM in three ways: (1) MMPI's Environmental Control Manager visits areas scheduled for work and looks for ACM or indications that it may be present although it is not visible; (2) the Environmental Control Manager makes regular inspections of work areas; and (3) contractors (as required by our standard General Conditions) and MMPI supervisors advise the Environmental Control Manager of material they encounter and suspect to be ACM. (Note: Due to work done before ACM was recognized to be hazardous, pieces of old insulation or ACM debris are occasionally found in concealed locations uncovered by demolition.) If material observed may be, but is not clearly, ACM it is either removed by proper ACM abatement techniques or it is bulk sampled and examined by Polarized Light Microscopy, by an independent laboratory, to determine whether removal is necessary.

ACM removal normally takes place at night. If loose or friable ACM is uncovered, demolition, construction, and maintenance workers leave the area until it is removed by an abatement contractor on an expedited basis. Abatement is done in accordance with federal, state and local laws and regulations; The Merchandise Mart ACM Abatement Specifications as amended through November 1992; and the National Institute of Building Sciences Guidance Manual, Asbestos Operations & Maintenance Work Practices, September 1992.

Most of the ACM in the Mart is pipe covering. It is removed by the glove bag method to prevent escape of fibers into the air. ACM is removed wet (the ACM covering is sprayed with a water mixed penetrant solution). Drop cloths are used. No other activity is allowed in an area where abatement is taking place. "Tenting" or containment, using negative air, is done where appropriate. The abatement area is cleaned by HEPA or wet vacuuming as appropriate and the

contents of the vacuum are disposed of as ACM. A final air clearance is performed by an independent testing laboratory to verify that fibers did not escape during the removal process. The MMPI Environmental Control Manager makes a final inspection of the abatement site to determine whether the work has been properly executed and is complete.

The Building may also contain vinyl asbestos floor tile ("VAT") and associated mastic. MMPI's protocol, consistent with the EPA's view, is that non-friable and undisturbed VAT is to be managed in place. Once identified the non-friable and undisturbed VAT is secured by a protective covering (carpeting). Friable VAT in poor condition is abated in accordance with this Protocol.

During removal, personal air monitors are used by abatement workers to measure fiber counts, in accordance with OSHA regulations. MMPI has an independent laboratory monitor fiber counts to confirm that they do not exceed OSHA action levels and EPA clearance levels.

It is the policy and practice of MMPI that ACM abatement/removal will be done by experienced and certified Illinois licensed contractors, using certified/trained abatement personnel. Abatement contractors notify the EPA before working at the Mart. MMPI's Environmental Control Manager holds the appropriate licenses and certifications from governmental authorities and training institutions. Employees of MMPI do not participate in ACM abatement.

ACM is disposed of by the abatement contractor doing the work, and disposal receipts are filed in the Office of MMPI.

EXHIBIT D
Janitorial Specifications

I. NIGHTLY: Monday through Friday (Holidays excluded)

- Dust mop, using a treated mop, all vinyl asphalt, rubber and similar types of flooring. This includes removal of gum and other similar substances using a scraping device.
- Vacuum all common carpeted areas within tenant space.
- Remove spots from carpeted areas, if possible.
- Hand dust and wipe clean, with a chemically treated cloth, furniture, file cabinets, cleared desk tops, counter tops and horizontal surfaces.
- Remove spots from all painted surfaces, entrance doors, glass walls and covering (except fabric) as necessary.
- Remove all gum and foreign matter in sight.
- Empty all waste receptacles and remove waste paper and waste materials to a designated area.
- Spot mop floors for spillage, etc.
- Empty and damp wipe all ash trays.
- Upon completion of work, all slop sinks are to be thoroughly cleaned and cleaning equipment and supplies stored neatly in locations designated by Building Manager's Office.
- Clean elevator cabs, including floors.
- Sweep clean loading dock areas.
- In corridors and lobby, dust and wipe clean mail chutes, mail depository door glass, metal door knobs, kick plates and directional signs.

II. WEEKLY:

- Completely vacuum all carpeted areas.

- Dust all baseboards, low level ledges, sills and moldings (under 8 ft.).
- Damp mop high traffic resilient tile areas.
- Wash all glass entrance doors side panels and glass walls inside and out.

III. MONTHLY:

- Dust all picture frames, charts and venetian blinds which are not reached in nightly cleaning.
- Buff all tile floor areas.

IV. QUARTERLY:

- Dust exterior of lighting fixtures.
- Vacuum all air conditioning vents, grills, etc.
- Vacuum upholstered furniture.

V. SEMI-ANNUALLY:

- Vacuum all vertical partitions and fabric.

LAVATORIES

I. NIGHTLY: Monday through Friday

- Clean and sanitize all toilet bowls, urinals and wash basins.
- Clean and polish all chrome and stainless steel fittings.
- Clean and sanitize toilet seats.
- Clean and polish all glass and mirrors.
- Empty trash receptacles and insert new liners where required.
- Wash and sanitize counter tops and exteriors of all trash receptacles.
- Spot clean all partitions and remove graffiti.
- Spot clean walls, doors and trim.

- Damp mop and sanitize tile floors.
- Refill all dispensers to normal limits.

II. QUARTERLY:

- Machine scrub tile floors.
- Wash partitions.
- Dust or vacuum all vents and grills.
- Wash ceramic tile walls.
- Clean high level ledges and sills.

III. ANNUALLY:

- Strip, seal and refinish.

LOBBIES, CORRIDORS, STAIRWELLS & ELEVATORS

I. NIGHTLY: Monday through Friday

- Vacuum all carpeted areas, including edges.
- Remove spots from carpet, if possible.
- Spot clean all doors, trim and walls.
- Clean and sanitize drinking fountains.
- Spot clean and vacuum/mop all elevators.
- Damp mop all hard surface floors.
- Clean Directories.
- Dust low level ledges, sills and moldings.
- Empty trash receptacles and remove waste to designated area.
- Empty ash trays.

II. WEEKLY:

- Spray and buff all hard floor surfaces.
- Dust high level ledges, sills and molding (under 8 ft.).
- Completely clean glass doors, partitions and trim.

III. QUARTERLY:

- Dust/vacuum vents and grills.

MISCELLANEOUS

- Cleaning of kitchens and computer rooms is the responsibility of the tenant.
- Day maid/porter service is provided to public washrooms.
- Lobby floor mats to be put out in lobby during inclement weather.

EXHIBIT E

Rates for Operations and Construction Services

FUNCTION	REIMBURSEMENT
Construction Services:	
Rubbish	$11.00 per cubic yard (construction debris only)
Water	No Charge
Sprinkler Shutdowns	$52.75/zone/occurrence; shutdown and reactivation
Plumbing Shutdowns	Actual costs per rates below, 1 hour minimum
Electrical Shutdowns	Actual costs per rates below, 1 hour minimum
Third Parties	Actual costs
Operations:	
Electricity	*
After-hour HVAC	$85/hr (summer), $65/hr (winter)
Housekeeping	$30.00 per hour
Security	$30.00 per hour
Elevator operators	$30.00 per hour
Crating/Materials Management	$30.00 per hour
Electricians	$66.50 per hour
Carpenters	$66.50 per hour
Engineers	$52.75 per hour
Decorators	$61.85 per hour
Plumbers	$58.50 per hour

All rates should be adjusted accordingly if required at time and one-half or double time (on overtime basis). Rates are subject to change.

* Temporary power panels and closets serving Tenant exclusively will be separately metered to Tenant.

EXHIBIT F
SHELL AND CORE WORK

EXHIBIT G

PRELIMINARY DRAWINGS; SPECIFICATIONS; AND SCHEDULE

Exhibit 10.8

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this " Amendment") between Allscripts LLC, a Delaware limited liability company ("Company"), and Glen Tullman ("Executive") is made and entered into as of December 31, 2004.

W I T N E S S E T H:

WHEREAS, Allscripts, Inc. and Executive entered into an Employment Agreement, dated as of July 8, 2002 (as the same may be further amended, supplemented or otherwise modified from time to time, the " Employment Agreement"); and

WHEREAS, in connection with a corporate reorganization of Allscripts, Inc. consummated in 2000, (1) Allscripts, Inc. became a wholly owned subsidiary and operating company of Allscripts Healthcare Solutions, Inc., a Delaware corporation (" Parent"), (2) Parent became a publicly held company, and (3) Executive was made an officer of Parent; and

WHEREAS, Allscripts, Inc., has been converted to a limited liability company under the laws of the State of Delaware; and

WHEREAS, the Compensation Committee of the Board of Directors of Parent (the "Board"), after comprehensive review of employment arrangements with executive officers, has determined that it is advisable and in the best interests of Parent, Company and Parent's stockholders to modify such arrangements in light of the above reorganization, and to more appropriately reflect the current business and legal environment and risk profile of Parent and its subsidiaries; and

WHEREAS, Company and Executive desire to amend the Employment Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual promises and agreements herein contained, the parties hereto agree as follows:

1. Amendment Date. This Amendment shall be deemed effective as of January 1, 2005 (the " Amendment Date"). Except as specifically set forth in this Amendment, all capitalized terms used in this Amendment shall have the same meaning as set forth in the Employment Agreement.
2. Changes to Reflect Reorganization. Executive hereby acknowledges and agrees that Executive serves as an executive officer of Parent and Company. Parent shall be bound by all applicable terms and conditions of the Employment Agreement, as modified by this Amendment. Executive agrees that any and all provisions in the Employment Agreement intended to benefit Company (including duties or obligations owed to Company) shall be deemed to include Parent, and that Company shall be entitled to enforce such duties and/or obligations on Parent's behalf. Without limiting the foregoing, the non-competition and confidentiality provisions set forth in Section 5 of the Employment Agreement are hereby amended to extend the protections provided therein to Parent and Parent's subsidiaries and affiliates, and applicable references therein to "Company" in

Section 5 shall be deemed to include Parent and any of its subsidiaries. Each reference in the Employment Agreement to "Allscripts, Inc." shall be deemed changed to "Allscripts LLC".

3. Base Salary. The annual base salary as stated in Section 3.1 of the Employment Agreement shall be changed to Three Hundred Seventy Five Thousand Dollars ($375,000), effective as of the Amendment Date.

4. Performance Bonus. Section 3.2 of the Employment Agreement is hereby deleted and the following inserted in lieu thereof:

> Executive shall be eligible to receive a cash bonus in accordance with this Section 3.2. Payment of the Performance Bonus, if any, will be subject to the sole discretion of the CEO, Board or a committee of the Board, and the amount of any such Performance Bonus will be determined by, and based upon criteria selected by, the CEO, Board or such committee. Based upon the foregoing exercise of discretion, Executive's target Performance Bonus, if any, shall be 50% of his/her salary, but may, based on performance, exceed such amount. The Performance Bonus shall be payable on or before April 30 of the year immediately succeeding the Fiscal Year for which such Performance Bonus was earned; provided, however, that if the applicable Company (or Parent) objectives are based upon Company's (or Parent's) annual audited financial statements, and if, on April 30 of the applicable year such financial statements have not yet been issued, the Performance Bonus, if any, shall be payable promptly upon the issuance of such financial statements.

5. Renewal and Rights Upon Expiration/Termination.

(a) The second sentence of Section 2 of the Employment Agreement is hereby deleted and the following inserted in the lieu thereof:

> Thereafter, the Company may elect to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of renewal to Executive at least ninety (90) days prior to the expiration of the then current term. If such notice is not provided, Executive must notify Company that Company failed to provide a notice of renewal. If Company does not cure such failure within five (5) business days, this Agreement will terminate at the expiration of the then current term. If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1). If Executive elects not to renew this Agreement, the same shall not constitute a termination of the Employment Period without cause and Executive shall be entitled to receive the severance/benefits set forth in Section 4.5.5.

(b) The second sentence of Section 4.3 is hereby deleted and the following inserted in lieu thereof:

> If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1).

(c) Section 4.5.1 of the Employment Agreement shall be amended to delete the parenthetical reference in the first sentence thereof (i.e., "other than non-renewal by Company under Section 2").

(d) Section 4.5.1 (ii) and Section 4.5.4 of the Employment Agreement shall be amended so as to provide that any Performance Bonus payable with respect to the Fiscal Year in which the Termination Date (and the following year, where applicable) occurs shall be the target Performance Bonus based on a percentage of Executive's salary and shall be paid in accordance with Section 3.2.

(e) Section 4.5.5 of the Employment Agreement is hereby amended so as to delete all references therein to non-renewal by Company, and to replace such references with "non-renewal by Executive".

6. Change of Control - Severance.

(a) For purposes of the definition of "Change of Control" in Section 4.4.2 of the Employment Agreement, a Change of Control shall be deemed to include a Change of Control of Parent, and with respect to Company, references to "shares" or "common stock" shall be deemed to include the membership interests of Company.

(b) Section 4.5.1 of the Employment Agreement shall be amended so as to delete the reference to "2.99" in subsection (i) of Section 4.5.2, and to replace such reference with the number "2".

(c) Section 4.5.2 shall be amended to provide that Executive shall receive a lump sum Performance Bonus amount equal to the target Performance Bonus that would have been received by Executive during the Fiscal Year in which the Change of Control occurs multiplied by 2.

7. Duration of Noncompetition/Nonsolicitation Covenants. Sections 5.1 and 5.2 of the Employment Agreement shall be amended to increase the duration of the noncompetition and nonsolicitation covenants described therein from one (1) year to two (2) years.

8. Stock Award. The parties hereto further acknowledge and agree that, as of the Amendment Date, Executive shall receive a stock option award, which shall entitle Executive to acquire up to 150,000 shares of Parent's common stock, subject to the terms and conditions (including vesting) set forth in any award agreement or similar documentation required by Parent or Company.

9. Miscellaneous. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect and is hereby ratified and confirmed. To the extent that any provision of this Amendment is inconsistent with the Agreement, the terms of this Amendment shall control. This Amendment and the Employment Agreement (a) are complete, (b) constitute the entire and original understanding between the parties with respect to the subject matter hereof and thereof, and (c) supersede all prior agreements, whether oral or written. No waiver, modification, or addition to this Amendment or the Employment Agreement shall be valid unless in writing and signed by the parties hereto.

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

ALLSCRIPTS LLC

By: /s/ Lee Shapiro

Title: President

Glen E. Tullman

/s/ Glen E. Tullman

Exhibit 10.10

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this " Amendment") between Allscripts LLC, a Delaware limited liability company ("Company"), and Lee Shapiro ("Executive") is made and entered into as of December 31, 2004.

W I T N E S S E T H:

WHEREAS, Allscripts, Inc. and Executive entered into an Employment Agreement, dated as of July 8, 2002 (as the same may be further amended, supplemented or otherwise modified from time to time, the " Employment Agreement"); and

WHEREAS, in connection with a corporate reorganization of Allscripts, Inc. consummated in 2000, (1) Allscripts, Inc. became a wholly owned subsidiary and operating company of Allscripts Healthcare Solutions, Inc., a Delaware corporation (" Parent"), (2) Parent became a publicly held company, and (3) Executive was made an officer of Parent; and

WHEREAS, Allscripts, Inc., has been converted to a limited liability company under the laws of the State of Delaware; and

WHEREAS, the Compensation Committee of the Board of Directors of Parent (the "Board"), after comprehensive review of employment arrangements with executive officers, has determined that it is advisable and in the best interests of Parent, Company and Parent's stockholders to modify such arrangements in light of the above reorganization, and to more appropriately reflect the current business and legal environment and risk profile of Parent and its subsidiaries; and

WHEREAS, Company and Executive desire to amend the Employment Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual promises and agreements herein contained, the parties hereto agree as follows:

1. Amendment Date. This Amendment shall be deemed effective as of January 1, 2005 (the " Amendment Date"). Except as specifically set forth in this Amendment, all capitalized terms used in this Amendment shall have the same meaning as set forth in the Employment Agreement.
2. Changes to Reflect Reorganization. Executive hereby acknowledges and agrees that Executive serves as an executive officer of Parent and Company. Parent shall be bound by all applicable terms and conditions of the Employment Agreement, as modified by this Amendment. Executive agrees that any and all provisions in the Employment Agreement intended to benefit Company (including duties or obligations owed to Company) shall be deemed to include Parent, and that Company shall be entitled to enforce such duties and/or obligations on Parent's behalf. Without limiting the foregoing, the non-competition and confidentiality provisions set forth in Section 5 of the Employment Agreement are hereby amended to extend the protections provided therein to Parent and Parent's subsidiaries and affiliates, and applicable references therein to "Company" in

Section 5 shall be deemed to include Parent and any of its subsidiaries. Each reference in the Employment Agreement to "Allscripts, Inc." shall be deemed changed to "Allscripts LLC".

3. Base Salary. The annual base salary as stated in Section 3.1 of the Employment Agreement shall be changed to Three Hundred Fifteen Thousand Dollars ($315,000), effective as of the Amendment Date.

4. Performance Bonus. Section 3.2 of the Employment Agreement is hereby deleted and the following inserted in lieu thereof:

> Executive shall be eligible to receive a cash bonus in accordance with this Section 3.2. Payment of the Performance Bonus, if any, will be subject to the sole discretion of the CEO, Board or a committee of the Board, and the amount of any such Performance Bonus will be determined by, and based upon criteria selected by, the CEO, Board or such committee. Based upon the foregoing exercise of discretion, Executive's target Performance Bonus, if any, shall be 50% of his/her salary, but may, based on performance, exceed such amount. The Performance Bonus shall be payable on or before April 30 of the year immediately succeeding the Fiscal Year for which such Performance Bonus was earned; provided, however, that if the applicable Company (or Parent) objectives are based upon Company's (or Parent's) annual audited financial statements, and if, on April 30 of the applicable year such financial statements have not yet been issued, the Performance Bonus, if any, shall be payable promptly upon the issuance of such financial statements.

5. Renewal and Rights Upon Expiration/Termination.

(a) The second sentence of Section 2 of the Employment Agreement is hereby deleted and the following inserted in the lieu thereof:

> Thereafter, the Company may elect to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of renewal to Executive at least ninety (90) days prior to the expiration of the then current term. If such notice is not provided, Executive must notify Company that Company failed to provide a notice of renewal. If Company does not cure such failure within five (5) business days, this Agreement will terminate at the expiration of the then current term. If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1). If Executive elects not to renew this Agreement, the same shall not constitute a termination of the Employment Period without cause and Executive shall be entitled to receive the severance/benefits set forth in Section 4.5.5.

(b) The second sentence of Section 4.3 is hereby deleted and the following inserted in lieu thereof:

> If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1).

(c) Section 4.5.1 of the Employment Agreement shall be amended to delete the parenthetical reference in the first sentence thereof (i.e., "other than non-renewal by Company under Section 2").

(d) Section 4.5.1 (ii) and Section 4.5.4 of the Employment Agreement shall be amended so as to provide that any Performance Bonus payable with respect to the Fiscal Year in which the Termination Date (and the following year, where applicable) occurs shall be the target Performance Bonus based on a percentage of Executive's salary and shall be paid in accordance with Section 3.2.

(e) Section 4.5.5 of the Employment Agreement is hereby amended so as to delete all references therein to non-renewal by Company, and to replace such references with "non-renewal by Executive".

6. Change of Control - Severance.

(a) For purposes of the definition of "Change of Control" in Section 4.4.2 of the Employment Agreement, a Change of Control shall be deemed to include a Change of Control of Parent, and with respect to Company, references to "shares" or "common stock" shall be deemed to include the membership interests of Company.

(b) Section 4.5.1 of the Employment Agreement shall be amended so as to delete the reference to "2.99" in subsection (i) of Section 4.5.2, and to replace such reference with the number "2".

(c) Section 4.5.2 shall be amended to provide that Executive shall receive a lump sum Performance Bonus amount equal to the target Performance Bonus that would have been received by Executive during the Fiscal Year in which the Change of Control occurs multiplied by 2.

7. Duration of Noncompetition/Nonsolicitation Covenants. Sections 5.1 and 5.2 of the Employment Agreement shall be amended to increase the duration of the noncompetition and nonsolicitation covenants described therein from one (1) year to two (2) years.

8. Stock Award. The parties hereto further acknowledge and agree that, as of the Amendment Date, Executive shall receive a stock option award, which shall entitle Executive to acquire up to 75,000 shares of Parent's common stock, subject to the terms and conditions (including vesting) set forth in any award agreement or similar documentation required by Parent or Company.

9. Miscellaneous. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect and is hereby ratified and confirmed. To the extent that any provision of this Amendment is inconsistent with the Agreement, the terms of this Amendment shall control. This Amendment and the Employment Agreement (a) are complete, (b) constitute the entire and original understanding between the parties with respect to the subject matter hereof and thereof, and (c) supersede all prior agreements, whether oral or written. No waiver, modification, or addition to this Amendment or the Employment Agreement shall be valid unless in writing and signed by the parties hereto.

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

ALLSCRIPTS LLC

By: /s/ Glen E. Tullman

Title: Chairman and Chief Executive Officer

Lee Shapiro

/s/ Lee Shapiro

Exhibit 10.12

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this " Amendment") between Allscripts LLC, a Delaware limited liability company ("Company"), and William J. Davis ("Executive") is made and entered into as of December 31, 2004.

W I T N E S S E T H:

WHEREAS, Allscripts, Inc. and Executive entered into an Employment Agreement, dated as of October 8, 2002 (as restated December 31, 2004) (as the same may be further amended, supplemented or otherwise modified from time to time, the " Employment Agreement"); and

WHEREAS, in connection with a corporate reorganization of Allscripts, Inc. consummated in 2000, (1) Allscripts, Inc. became a wholly owned subsidiary and operating company of Allscripts Healthcare Solutions, Inc., a Delaware corporation (" Parent"), (2) Parent became a publicly held company, and (3) Executive was made an officer of Parent; and

WHEREAS, Allscripts, Inc., has been converted to a limited liability company under the laws of the State of Delaware; and

WHEREAS, the Compensation Committee of the Board of Directors of Parent (the "Board"), after comprehensive review of employment arrangements with executive officers, has determined that it is advisable and in the best interests of Parent, Company and Parent's stockholders to modify such arrangements in light of the above reorganization, and to more appropriately reflect the current business and legal environment and risk profile of Parent and its subsidiaries; and

WHEREAS, Company and Executive desire to amend the Employment Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual promises and agreements herein contained, the parties hereto agree as follows:

1. Amendment Date. This Amendment shall be deemed effective as of January 1, 2005 (the " Amendment Date"). Except as specifically set forth in this Amendment, all capitalized terms used in this Amendment shall have the same meaning as set forth in the Employment Agreement.
2. Changes to Reflect Reorganization. Executive hereby acknowledges and agrees that Executive serves as an executive officer of Parent and Company. Parent shall be bound by all applicable terms and conditions of the Employment Agreement, as modified by this Amendment. Executive agrees that any and all provisions in the Employment Agreement intended to benefit Company (including duties or obligations owed to Company) shall be deemed to include Parent, and that Company shall be entitled to enforce such duties and/or obligations on Parent's behalf. Without limiting the foregoing, the non-competition and confidentiality provisions set forth in Section 5 of the Employment Agreement are hereby amended to extend the protections provided therein to Parent and

Parent's subsidiaries and affiliates, and applicable references therein to "Company" in Section 5 shall be deemed to include Parent and any of its subsidiaries. Each reference in the Employment Agreement to "Allscripts, Inc." shall be deemed changed to "Allscripts LLC".

3. Base Salary. The annual base salary as stated in Section 3.1 of the Employment Agreement shall be changed to Two Hundred Ninety Thousand Dollars ($290,000), effective as of the Amendment Date.

4. Performance Bonus. Section 3.2 of the Employment Agreement is hereby deleted and the following inserted in lieu thereof:

> Executive shall be eligible to receive a cash bonus in accordance with this Section 3.2. Payment of the Performance Bonus, if any, will be subject to the sole discretion of the CEO, Board or a committee of the Board, and the amount of any such Performance Bonus will be determined by, and based upon criteria selected by, the CEO, Board or such committee. Based upon the foregoing exercise of discretion, Executive's target Performance Bonus, if any, shall be 50% of his/her salary, but may, based on performance, exceed such amount. The Performance Bonus shall be payable on or before April 30 of the year immediately succeeding the Fiscal Year for which such Performance Bonus was earned; provided, however, that if the applicable Company (or Parent) objectives are based upon Company's (or Parent's) annual audited financial statements, and if, on April 30 of the applicable year such financial statements have not yet been issued, the Performance Bonus, if any, shall be payable promptly upon the issuance of such financial statements.

5. Renewal and Rights Upon Expiration/Termination.

(a) The second sentence of Section 2 of the Employment Agreement is hereby deleted and the following inserted in the lieu thereof:

> Thereafter, the Company may elect to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of renewal to Executive at least ninety (90) days prior to the expiration of the then current term. If such notice is not provided, Executive must notify Company that Company failed to provide a notice of renewal. If Company does not cure such failure within five (5) business days, this Agreement will terminate at the expiration of the then current term. If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1). If Executive elects not to renew this Agreement, the same shall not constitute a termination of the Employment Period without cause and Executive shall be entitled to receive the severance/benefits set forth in Section 4.5.5.

(b) The second sentence of Section 4.3 is hereby deleted and the following inserted in lieu thereof:

> If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1).

(c) Section 4.5.1 of the Employment Agreement shall be amended to delete the parenthetical reference in the first sentence thereof (i.e., "other than non-renewal by Company under Section 2").

(d) Section 4.5.1 (ii) and Section 4.5.4 of the Employment Agreement shall be amended so as to provide that any Performance Bonus payable with respect to the Fiscal Year in which the Termination Date (and the following year, where applicable) occurs shall be the target Performance Bonus based on a percentage of Executive's salary and shall be paid in accordance with Section 3.2.

(e) Section 4.5.5 of the Employment Agreement is hereby amended so as to delete all references therein to non-renewal by Company, and to replace such references with "non-renewal by Executive".

6. Change of Control - Severance.

(a) For purposes of the definition of "Change of Control" in Section 4.4.2 of the Employment Agreement, a Change of Control shall be deemed to include a Change of Control of Parent, and with respect to Company, references to "shares" or "common stock" shall be deemed to include the membership interests of Company.

(b) Section 4.5.1 of the Employment Agreement shall be amended so as to delete the reference to "2.99" in subsection (i) of Section 4.5.2, and to replace such reference with the number "2".

(c) Section 4.5.2 shall be amended to provide that Executive shall receive a lump sum Performance Bonus amount equal to the target Performance Bonus that would have been received by Executive during the Fiscal Year in which the Change of Control occurs multiplied by 2.

7. Duration of Noncompetition/Nonsolicitation Covenants. Sections 5.1 and 5.2 of the Employment Agreement shall be amended to increase the duration of the noncompetition and nonsolicitation covenants described therein from one (1) year to two (2) years.

8. Stock Award. The parties hereto further acknowledge and agree that, as of the Amendment Date, Executive shall receive a stock option award, which shall entitle Executive to acquire up to 50,000 shares of Parent's common stock, subject to the terms and conditions (including vesting) set forth in any award agreement or similar documentation required by Parent or Company.

9. Miscellaneous. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect and is hereby ratified and confirmed. To the extent that any provision of this Amendment is inconsistent with the Agreement, the terms of this Amendment shall control. This Amendment and the Employment Agreement (a) are complete, (b) constitute the entire and original understanding between the parties with respect to the subject matter hereof and thereof, and (c) supersede all prior agreements, whether oral or written. No waiver, modification, or addition to this Amendment or the Employment Agreement shall be valid unless in writing and signed by the parties hereto.

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

ALLSCRIPTS LLC

By: /s/ Glen E. Tullman

Title: Chairman and Chief Executive Officer

William J. Davis

/s/ William J. Davis

Exhibit 10.14

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment") between Allscripts LLC, a Delaware limited liability company ("Company"), and Joe Carey ("Executive") is made and entered into as of December 31, 2004.

W I T N E S S E T H:

WHEREAS, Allscripts, Inc. and Executive entered into an Employment Agreement, dated as of July 8, 2002 (as the same may be further amended, supplemented or otherwise modified from time to time, the "Employment Agreement"); and

WHEREAS, in connection with a corporate reorganization of Allscripts, Inc. consummated in 2000, (1) Allscripts, Inc. became a wholly owned subsidiary and operating company of Allscripts Healthcare Solutions, Inc., a Delaware corporation ("Parent"), (2) Parent became a publicly held company, and (3) Executive was made an officer of Parent; and

WHEREAS, Allscripts, Inc., has been converted to a limited liability company under the laws of the State of Delaware; and

WHEREAS, the Compensation Committee of the Board of Directors of Parent (the "Board"), after comprehensive review of employment arrangements with executive officers, has determined that it is advisable and in the best interests of Parent, Company and Parent's stockholders to modify such arrangements in light of the above reorganization, and to more appropriately reflect the current business and legal environment and risk profile of Parent and its subsidiaries; and

WHEREAS, Company and Executive desire to amend the Employment Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual promises and agreements herein contained, the parties hereto agree as follows:

1. Amendment Date. This Amendment shall be deemed effective as of January 1, 2005 (the "Amendment Date"). Except as specifically set forth in this Amendment, all capitalized terms used in this Amendment shall have the same meaning as set forth in the Employment Agreement.

2. Changes to Reflect Reorganization. Executive hereby acknowledges and agrees that Executive serves as an executive officer of Parent and Company. Parent shall be bound by all applicable terms and conditions of the Employment Agreement, as modified by this Amendment. Executive agrees that any and all provisions in the Employment Agreement intended to benefit Company (including duties or obligations owed to Company) shall be deemed to include Parent, and that Company shall be entitled to enforce such duties and/or obligations on Parent's behalf. Without limiting the foregoing, the non-competition and confidentiality provisions set forth in Section 5 of the Employment Agreement are hereby amended to extend the protections provided therein to Parent and Parent's subsidiaries and affiliates, and applicable references therein to "Company" in

Section 5 shall be deemed to include Parent and any of its subsidiaries. Each reference in the Employment Agreement to "Allscripts, Inc." shall be deemed changed to "Allscripts LLC".

3. Base Salary. The annual base salary as stated in Section 3.1 of the Employment Agreement shall be changed to Two Hundred Ninety Thousand Dollars ($290,000), effective as of the Amendment Date.

4. Performance Bonus. Section 3.2 of the Employment Agreement is hereby deleted and the following inserted in lieu thereof:

> Executive shall be eligible to receive a cash bonus in accordance with this Section 3.2. Payment of the Performance Bonus, if any, will be subject to the sole discretion of the CEO, Board or a committee of the Board, and the amount of any such Performance Bonus will be determined by, and based upon criteria selected by, the CEO, Board or such committee. Based upon the foregoing exercise of discretion, Executive's target Performance Bonus, if any, shall be 50% of his/her salary, but may, based on performance, exceed such amount. The Performance Bonus shall be payable on or before April 30 of the year immediately succeeding the Fiscal Year for which such Performance Bonus was earned; provided, however, that if the applicable Company (or Parent) objectives are based upon Company's (or Parent's) annual audited financial statements, and if, on April 30 of the applicable year such financial statements have not yet been issued, the Performance Bonus, if any, shall be payable promptly upon the issuance of such financial statements.

5. Renewal and Rights Upon Expiration/Termination.

(a) The second sentence of Section 2 of the Employment Agreement is hereby deleted and the following inserted in the lieu thereof:

> Thereafter, the Company may elect to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of renewal to Executive at least ninety (90) days prior to the expiration of the then current term. If such notice is not provided, Executive must notify Company that Company failed to provide a notice of renewal. If Company does not cure such failure within five (5) business days, this Agreement will terminate at the expiration of the then current term. If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1). If Executive elects not to renew this Agreement, the same shall not constitute a termination of the Employment Period without cause and Executive shall be entitled to receive the severance/benefits set forth in Section 4.5.5.

(b) The second sentence of Section 4.3 is hereby deleted and the following inserted in lieu thereof:

> If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1).

(c) Section 4.5.1 of the Employment Agreement shall be amended to delete the parenthetical reference in the first sentence thereof (i.e., "other than non-renewal by Company under Section 2").

(d) Section 4.5.1 (ii) and Section 4.5.4 of the Employment Agreement shall be amended so as to provide that any Performance Bonus payable with respect to the Fiscal Year in which the Termination Date occurs shall be the target Performance Bonus based on a percentage of Executive's salary and shall be paid in accordance with Section 3.2.

(e) Section 4.5.5 of the Employment Agreement is hereby amended so as to delete all references therein to non-renewal by Company, and to replace such references with "non-renewal by Executive".

6. Change of Control - Severance.

(a) For purposes of the definition of "Change of Control" in Section 4.4.2 of the Employment Agreement, a Change of Control shall be deemed to include a Change of Control of Parent, and with respect to Company, references to "shares" or "common stock" shall be deemed to include the membership interests of Company.

(b) Section 4.5.1 of the Employment Agreement shall be amended so as to delete the reference to "2.99" in subsection (i) of Section 4.5.2, and to replace such reference with the number "2".

(c) Section 4.5.2 shall be amended to provide that Executive shall receive a lump sum Performance Bonus amount equal to the target Performance Bonus that would have been received by Executive during the Fiscal Year in which the Change of Control occurs multiplied by 2.

7. Duration of Noncompetition/Nonsolicitation Covenants. Sections 5.1 and 5.2 of the Employment Agreement shall be amended to increase the duration of the noncompetition and nonsolicitation covenants described therein from one (1) year to two (2) years.

8. Stock Award. The parties hereto further acknowledge and agree that, as of the Amendment Date, Executive shall receive a stock option award, which shall entitle Executive to acquire up to 50,000 shares of Parent's common stock, subject to the terms and conditions (including vesting) set forth in any award agreement or similar documentation required by Parent or Company.

9. Miscellaneous. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect and is hereby ratified and confirmed. To the extent that any provision of this Amendment is inconsistent with the Agreement, the terms of this Amendment shall control. This Amendment and the Employment Agreement (a) are complete, (b) constitute the entire and original understanding between the parties with respect to the subject matter hereof and thereof, and (c) supersede all prior agreements, whether oral or written. No waiver, modification, or addition to this Amendment or the Employment Agreement shall be valid unless in writing and signed by the parties hereto.

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

ALLSCRIPTS LLC

By: /s/ Glen E. Tullman

Title: Chairman and Chief Executive Officer

Joseph E. Carey

/s/ Joseph E. Carey

Exhibit 10.16

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this " Amendment") between Allscripts LLC, a Delaware limited liability company ("Company"), and Scott Leisher ("Executive") is made and entered into as of December 31, 2004.

W I T N E S S E T H:

WHEREAS, Allscripts, Inc. and Executive entered into an Employment Agreement, dated as of July 8, 2002 (as the same may be further amended, supplemented or otherwise modified from time to time, the " Employment Agreement"); and

WHEREAS, in connection with a corporate reorganization of Allscripts, Inc. consummated in 2000, (1) Allscripts, Inc. became a wholly owned subsidiary and operating company of Allscripts Healthcare Solutions, Inc., a Delaware corporation (" Parent"), (2) Parent became a publicly held company, and (3) Executive was made an officer of Parent; and

WHEREAS, Allscripts, Inc., has been converted to a limited liability company under the laws of the State of Delaware; and

WHEREAS, the Compensation Committee of the Board of Directors of Parent (the "Board"), after comprehensive review of employment arrangements with executive officers, has determined that it is advisable and in the best interests of Parent, Company and Parent's stockholders to modify such arrangements in light of the above reorganization, and to more appropriately reflect the current business and legal environment and risk profile of Parent and its subsidiaries; and

WHEREAS, Company and Executive desire to amend the Employment Agreement upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual promises and agreements herein contained, the parties hereto agree as follows:

1. Amendment Date. This Amendment shall be deemed effective as of January 1, 2005 (the " Amendment Date"). Except as specifically set forth in this Amendment, all capitalized terms used in this Amendment shall have the same meaning as set forth in the Employment Agreement.
2. Changes to Reflect Reorganization. Executive hereby acknowledges and agrees that Executive serves as an executive officer of Parent and Company. Parent shall be bound by all applicable terms and conditions of the Employment Agreement, as modified by this Amendment. Executive agrees that any and all provisions in the Employment Agreement intended to benefit Company (including duties or obligations owed to Company) shall be deemed to include Parent, and that Company shall be entitled to enforce such duties and/or obligations on Parent's behalf. Without limiting the foregoing, the non-competition and confidentiality provisions set forth in Section 5 of the Employment Agreement are hereby amended to extend the protections provided therein to Parent and Parent's subsidiaries and affiliates, and applicable references therein to "Company" in

Section 5 shall be deemed to include Parent and any of its subsidiaries. Each reference in the Employment Agreement to "Allscripts, Inc." shall be deemed changed to "Allscripts LLC".

3. Performance Bonus. Section 3.2 of the Employment Agreement is hereby deleted and the following inserted in lieu thereof:

> Commissions. Executive shall be eligible to participate in the Company's sales commission plan as same shall be applicable to sales in which Executive is involved based on the terms and provisions of said plan. For purposes of Section 4.5 below, Performance Bonus, as defined, and where applicable, shall mean 50% of Executive's salary.

4. Renewal and Rights Upon Expiration/Termination.

(a) The second sentence of Section 2 of the Employment Agreement is hereby deleted and the following inserted in the lieu thereof:

> Thereafter, the Company may elect to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of renewal to Executive at least ninety (90) days prior to the expiration of the then current term. If such notice is not provided, Executive must notify Company that Company failed to provide a notice of renewal. If Company does not cure such failure within five (5) business days, this Agreement will terminate at the expiration of the then current term. If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1). If Executive elects not to renew this Agreement, the same shall not constitute a termination of the Employment Period without cause and Executive shall be entitled to receive the severance/benefits set forth in Section 4.5.5.

(b) The second sentence of Section 4.3 is hereby deleted and the following inserted in lieu thereof:

> If Company elects not to renew this Agreement at the end of the initial term or any renewal term, such nonrenewal shall be treated as a termination of the Employment Period without cause by Company for the limited purpose of determining the payments and benefits available to Executive (i.e., Executive shall be entitled to the severance/benefits set forth in Section 4.5.1).

(c) Section 4.5.1 of the Employment Agreement shall be amended to delete the parenthetical reference in the first sentence thereof (i.e., "other than non-renewal by Company under Section 2").

(d) Section 4.5.1 (ii) and Section 4.5.4 of the Employment Agreement shall be amended so as to provide that any Performance Bonus payable with respect to the Fiscal Year in which the Termination Date occurs shall be the target Performance Bonus based on a percentage of Executive's salary and shall be paid in accordance with Section 3.2.

(e) Section 4.5.5 of the Employment Agreement is hereby amended so as to delete all references therein to non-renewal by Company, and to replace such references with "non-renewal by Executive".

5. Change of Control - Severance.

(a) For purposes of the definition of "Change of Control" in Section 4.4.2 of the Employment Agreement, a Change of Control shall be deemed to include a Change of Control of Parent, and with respect to Company, references to "shares" or "common stock" shall be deemed to include the membership interests of Company.

(b) Section 4.5.1 of the Employment Agreement shall be amended so as to delete the reference to "2.99" in subsection (i) of Section 4.5.2, and to replace such reference with the number "2".

(c) Section 4.5.2 shall be amended to provide that Executive shall receive a lump sum Performance Bonus amount equal to the target Performance Bonus that would have been received by Executive during the Fiscal Year in which the Change of Control occurs multiplied by 2.

6. Duration of Noncompetition/Nonsolicitation Covenants. Sections 5.1 and 5.2 of the Employment Agreement shall be amended to increase the duration of the noncompetition and nonsolicitation covenants described therein from one (1) year to two (2) years.

7. Stock Award. The parties hereto further acknowledge and agree that, as of the Amendment Date, Executive shall receive a stock option award, which shall entitle Executive to acquire up to 25,000 shares of Parent's common stock, subject to the terms and conditions (including vesting) set forth in any award agreement or similar documentation required by Parent or Company.

8. Miscellaneous. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect and is hereby ratified and confirmed. To the extent that any provision of this Amendment is inconsistent with the Agreement, the terms of this Amendment shall control. This Amendment and the Employment Agreement (a) are complete, (b) constitute the entire and original understanding between the parties with respect to the subject matter hereof and thereof, and (c) supersede all prior agreements, whether oral or written. No waiver, modification, or addition to this Amendment or the Employment Agreement shall be valid unless in writing and signed by the parties hereto.

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

ALLSCRIPTS LLC

By: /s/ Glen E. Tullman

Title: Chairman and Chief Executive Officer

Scott Leisher

/s/ Scott Leisher

Exhibit 10.25

CONCEPTS II BUILDING

FOURTH AMENDMENT

TO

LEASE AGREEMENT

between

LINCOLN COMMERCE CENTER PROPERTIES, LLC

LANDLORD

and

ALLSCRIPTS, LLC.

TENANT

AMENDED LEASE SUMMARY SHEET
Effective as of January 1, 2005

DATE OF THIS AMENDMENT:	May 20, 2004	
DATE OF THIRD AMENDMENT:	February 1, 2004	
DATE OF SECOND AMENDMENT:	September 30, 2002	
DATE OF FIRST AMENDMENT:	December 31, 1999	
DATE OF LEASE:	October 15, 1996	
TENANT:	Allscripts, LLC	
BUILDING:	Concepts II, 2401 Commerce Drive Libertyville, Illinois 60048	
LEASED PREMISES:	Rentable Square Feet – 61,955 square feet	
COMMENCEMENT DATE:	April 1, 1997	
TERMINATION DATE:	June 30, 2009	
FIXED RENT FOR REDUCED LEASED PREMISES:	From January 1, 2005 to June 30, 2009	
	1/1/05 to 6/30/05	$49,822.14 per month
	7/1/05 to 6/30/06	$52,403.60 per month
	7/1/06 to 6/30/07	$54,985.06 per month
	7/1/07 to 6/30/08	$67,566.52 per month
	7/1/08 to 6/30/09	$61,438.71 per month
TAXES & OPERATING EXPENSES:	Tenant's share is 77.72%	
ELECTRICITY AND GAS FOR HVAC:	Separately Metered to Tenant	
ELECTRICITY FOR LIGHTING & OUTLETS:	Separately Metered to Tenant	
PERMITTED USES:	Warehousing, Industrial and Office Uses	
SECURITY DEPOSIT:	None	

The Amended Lease Summary is for informational purposes only. In the event any information in this Amended Lease Summary is in conflict with any provision in the Lease As Amended, the Lease As Amended shall prevail.

TABLE OF ARTICLES

EXHIBITS

FOURTH AMENDMENT TO LEASE AGREEMENT

THIS FOURTH AMENDMENT TO LEASE AGREEMENT (the "Fourth Amendment"), is made and entered into this 20th day of May 2004 (the "Effective Date") by LINCOLN COMMERCE CENTER PROPERTIES, LLC, an Illinois limited liability company ("Landlord"), and ALLSCRIPTS, LLC., a Delaware limited liability company ("Tenant"), and hereby amends a Lease Agreement entered into between the parties on October 15, 1996 (the "Lease Agreement"), amended on December 31, 1999 (the "First Amendment"), on September 30, 2002 (the "Second Amendment"), and on February 1, 2004 (the "Third Amendment') (the Lease Agreement and the First, Second and Third Amendments are collectively referred to as the "Lease") (this Fourth Amendment and the Lease are collectively referred to as the "Lease As Amended").

WHEREAS, Landlord is the owner of a single story industrial building totaling approximately 79,715 square feet (the "Building"). The Building is commonly known as Concepts II, and has a common address of 2401 Commerce Drive, Libertyville, Illinois 60048, and is located in the industrial park known as Lincoln Commerce Center;

WHEREAS, the Tenant is leasing from the Landlord the entire Building (the "Leased Premises") pursuant to the Lease;

WHEREAS, pursuant to Article IV "Contraction of Leased Premises" of the Second Amendment, the Tenant had the right to reduce the Leased Premises by up to 30,000 square feet; and

WHEREAS, the Tenant has elected to reduce the Leased Premises by 17,760 square feet.

NOW THEREFORE it is agreed to amend the Lease as follows:

ARTICLE I
DEFINED TERMS

The Lease provides for various special references and/or definitions of certain terms or words. All such references and/or definitions, provided they are not in conflict with those terms and words defined herein, are incorporated in this Fourth Amendment.

ARTICLE II
REDUCED LEASED PREMISES

The parties hereby acknowledge and agree that on March 31, 2004, the Tenant properly and effectively served notice on the Landlord of its election to reduce the Leased Premises from 79,715 square feet to 61,955 square feet effective as of January 1, 2005; all pursuant to and in accordance with Article IV "Contraction of Leased Premises" in the Second Amendment. The portion of the Leased Premises being released from the terms of this Lease As Amended, is a total of 17,760 square feet (the "Released Premises") is described and depicted in Exhibit #1, attached hereto and made a part hereof. Therefore, effective as of January 1, 2005, the remaining Leased Premises (the "Reduced Leased Premises") shall become 61,955 square feet (the "Reduced Rentable Square Feet").

ARTICLE III
REDUCED FIXED RENT

The Tenant shall continue to pay the New Fixed Rent for the period from the Effective Date through December 31, 2004, as provided in Article III "New Fixed Rent and New Fixed Rent during the Extended Term" in the Second Amendment (the "New Fixed Rent"). Effective as of January 1, 2005, the New Fixed Rent is hereby voided and held for naught, and the following substituted therefor:

Subject to the terms and conditions of the Lease As Amended and in consideration hereof, and for the portion of the Extended Term from January 1, 2005 through June 30, 2009, the Landlord and the Tenant agree that the Tenant is obligated to pay the Landlord the sum of Three Million, Fifteen Thousand, Six Hundred Fifty Nine and 52/100 Dollars ($3,015,659.52) ("Reduced Fixed Rent"), in Fifty Four (54) monthly installments payable in advance on the first day of each month as follows:

A. For the Six (6) month period from January 1, 2005 to June 30, 2005 inclusive—Six (6) monthly installments of Forty Nine Thousand Eight Hundred and Twenty Two and 14/100 Dollars ($49,822.14) ($9.65 per square foot);

B. For the Twelve (12) month period from July 1, 2005 to June 30, 2006 inclusive—Twelve (12) monthly installments of Fifty Two Thousand Four Hundred and Three and 60/100 Dollars ($52,403.60) ($10.15 per square foot);

C. For the Twelve (12) month period from July 1, 2006 to June 30, 2007 inclusive—Twelve (12) monthly installments of Fifty Four Thousand Nine Hundred and Eighty Five and 06/100 Dollars ($54,985.06) ($10.65 per square foot);

D. For the Twelve (12) month period from July 1, 2007 to June 30, 2008 inclusive—Twelve (12) monthly installments of Fifty Seven Thousand Five Hundred and Sixty Six and 52/100 Dollars ($57,566.52) (11.15 per square foot); and

E. For the Twelve (12) month period from July 1, 2008 to June 30, 2009 inclusive—Twelve (12) monthly installments of Sixty One Thousand Four Hundred and Thirty Eight and 71/100 Dollars ($61,438.71) ($11.90 per square foot).

Reduced Fixed Rent and Additional Rent and/or other payments reserved and required under the Lease As Amended are collectively referred to as the "Rental". Unless as otherwise specifically provided or hereafter otherwise designated, all monthly installments of Rental shall be paid in advance on the first day of each and every calendar month of the Extended Term to Landlord's agent, Lincoln Atrium Management Company, 59 West Seegers Road, Arlington Heights, Illinois 60005, or to such other agent or at such other place as Landlord may from time to time hereafter designate in writing. All Rental shall be paid by Tenant to Landlord without notice or demand, and without abatement, deduction, counterclaim or set off of any kind.

ARTICLE IV
CONTRACTION FEE

The Tenant is obligated to pay to the Landlord the sum of One Hundred and Twelve Thousand, Four Hundred and Seventy Four and 08/100 Dollars ($112,474.08), which is the Contraction Fee due and

computed in accordance with Article IV C of the Second Amendment. The Contraction Fee is due and payable to the Landlord ten (10) days after the Effective Date.

ARTICLE V
NEW PRORATA SHARE

Effective as of January 1, 2005, the New Prorata Share (as defined in Article III of the Lease Agreement and Article V J of the Second Amendment) is hereby reduced to Seventy Seven Point Seven Two Percent (77.72%), (the "New Prorata Share"). Therefore on and after January 1, 2005 and for the balance of the Extended Term, the Tenant shall be pay to the New Prorata Share (or 77.72%) of Additional Rent. Both parties hereto agree and acknowledge that there is no common area in the Building.

ARTICLE VI
UNCURED EVENT OF DEFAULT

In the event the Tenant commits an uncured Event of Default between the Effective Date and January 1, 2005, the right to reduce the Leased Premises shall terminate and be of no force and effect and the Landlord shall have the right to retain the Contraction Fee, and apply same to Rental then due or becoming due in the future and/or to damages resulting from said Event of Default.

ARTICLE VII
MODIFICATIONS AND CONSTRUCTION

A. The Landlord, at its cost, shall construct demising walls from the floor to the underneath portion of the roof in the shipping and receiving area, as described and depicted in Exhibit #1. At the Landlord's option, said demising wall can be concrete block up to a height of ten (10) feet and then wire fencing for the remainder of the height of the wall. The portion of the wall facing the Reduced Leased Premises shall be unfinished concrete block and wire fencing.

B. The Landlord shall construct and pay for the installation of a demising wall between the remaining Reduced Leased Premises and the Released Premises; however the Tenant shall reimburse the Landlord for the reasonable cost of constructing approximately forty (40) lineal feet of said demising wall (the "Tenant's Construction Costs"). The parties agree that the Tenant's Construction Costs is Five Thousand and 00/100 Dollars ($5,000.00) (estimated at $125 per lineal foot), which is due and payable from the Tenant at the same time as the Contraction Fee. Failure of the part of the Tenant to pay the Tenant's Construction Cost on said date shall constitute an Event of Default by the Tenant of this Lease As Amended.

ARTICLE VIII
PARKING DEDICATED TO THE RELEASED PREMISES

Effective as of January 1, 2005, the Tenant agrees that the area of the parking lot of the Building, as described and depicted in Exhibit #2, which is attached hereto and made a part hereof, shall be exclusively dedicated to parking for the benefit of the Released Premises only (the "Dedicated Parking Area"). The Tenant, its agents, employees and invitees, are restricted from parking any vehicles whatsoever in the Dedicated Parking Area. The Landlord shall have the right to post appropriate signage in the Dedicated Parking Area; and take all reasonable steps and procedures to enforce the said parking restrictions, including, but not limited to towing violators. However if the Landlord has reasonably grounds to believe that the violator is a employee or invitee of the Tenant, prior written notice shall be

given to the Tenant describing the make of the vehicle and the license plate. If the violator continues to park in the Dedicated Parking Area, the Landlord shall have the right to tow the violator without any further notice.

The Landlord agrees it will take all reasonable steps and procedures to restrain the occupants of the Released Premises from parking in any area of the parking lot, other than in the Dedicated Parking Area.

ARTICLE IX
REMAINING PROVISIONS OF LEASE

On and after January 1, 2005, the Estoppel Certificate (Exhibit B of the First Amendment) will be hereby restated as set forth in Exhibit #3, attached hereto and made a part hereof.

All other provisions, terms and conditions of the Lease, not in conflict with the provisions, terms and conditions of this Fourth Amendment, shall remain in full force and effect.

IN WITNESS WHEREOF, we have set our hands and seal to this Fourth Amendment, of four (4) pages, this page included, the day and year first above written.

LANDLORD:
LINCOLN COMMERCE CENTER PROPERTIES, LLC, an Illinois limited liability company

/s/ Lincoln Commerce Center Properties, LLC
Authorized Member

TENANT:
ALLSCRIPTS, LLC, a Delaware limited liability company

/s/ Lee Shapiro
President

Secretary

LANDLORD'S ACKNOWLEDGMENT

STATE OF ILLINOIS
COUNTY OF COOK

I,_____ , a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY THAT Peter M. Tsolinas, personally known to me to be an authorized Member of LINCOLN COMMERCE CENTER PROPERTIES, LLC, and known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed and delivered the said instrument pursuant to the direction of the said company, for the uses and purposes therein set forth.

Given under my hand and notarial seal this ____ day of May 2004

_____
Notary Public

My commission expires _____ .

TENANT'S ACKNOWLEDGMENT

STATE OF ILLINOIS
COUNTY OF LAKE

I,_____ , a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY THAT _____ personally known to me to be the President of ALLSCRIPTS, LLC, a Delaware limited liability company, and _____ , personally known to me to be the _____ Secretary of said corporation and personally known to me to be the same persons whose names are subscribed to the foregoing instrument, appeared before me this day in person and severally acknowledged that they signed and delivered the said instrument as President and Secretary of said corporation, and caused the corporate seal to be affixed thereto, pursuant to authority given by the Board of Directors of said corporation, as their free and voluntary act and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

Given under my hand and notarial seal this ____ day of May 2004

_____
Notary Public

My Commission expires:_____ .

RESTATED ESTOPPEL CERTIFICATE
(For Use On and after January 1, 2005)

The undersigned, ALLSCRIPTS, LLC, a Delaware limited liability company, hereby certifies that it is the Tenant under a certain Lease Agreement dated October 15, 1996, amended December 31, 1999 September 30, 2002, February 1, 2004 and May 20, 2004 (collectively the "Lease As Amended") with LINCOLN COMMERCE CENTER PROPERTIES, LLC, which Lease leases to Tenant, 61,955 square feet of office/warehouse space ("Reduced Leased Premises") at the Concepts II Building, Libertyville, Illinois ("Building").

The Tenant hereby further certifies as to the following:

1. That the Lease As Amended is in full force and effect and has not been modified, altered, or amended other than as set forth in the Amendments described above;

2. That possession of the Reduced Leased Premises (61,955 square feet) had been accepted by the Tenant;

3. That the Term of the Lease commenced on April 1, 1997, and ends on June 30, 2009;

4. That the Rentable Square Feet of the Reduced Leased Premises is 61,955;

5. That the Reduced Fixed Rent due from Tenant for the Term from January 1, 2005 to June 30, 2009, is to be paid in 54 Monthly Payments, as follows:

1/1/05 to 6/30/05	$49,822.14 per month
7/1/05 to 6/30/06	$52,403.60 per month
7/1/06 to 6/30/07	$54,985.06 per month
7/1/07 to 6/30/08	$57,566.52 per month
7/1/08 to 6/30/09	$61,438.71 per month

6. That the Tenant is obligated to pay 77.72% of the Taxes and Operating Expenses of the Building, as Additional Rent;

7. That the Tenant has accepted and is in possession of the Reduced Leased Premises; that any Tenant Improvements to the Reduced Leased Premises, required by the terms of the Lease As Amended to be made by the Landlord, have been completed to the satisfaction of the Tenant;

8. That there are no payments, credits, or concessions required to be made or granted by Landlord to Tenant in connection with the Lease As Amended, which have not been paid or fulfilled, so that the Landlord has no obligations or liabilities with respect thereto;

9. That no Rental or any other charges due under the Lease As Amended have been paid more than thirty (30) days in advance of the date hereof;

10. That the Lease As Amended, the Reduced Leased Premises or any portion thereof, have not been assigned or sublet, by operation of law or otherwise;

11. That, to the best of Tenant's knowledge, (a) there has been no Event of Default or breach under the Lease As Amended, by either the Tenant or the Landlord, and (b) no event has occurred which, with

the giving of Notices, or the passage of time, or both, could result in an Event of Default or breach under the Lease As Amended;

12. That the Tenant, as of the date hereof, does not have any right, charge, claim, lien, or right of set-off, under the Lease As Amended and/or against the Landlord, other than as stated in the Lease As Amended;

13. That the Lease, dated October 15, 1996, consists of 31 Pages and the following Exhibits:

Exhibit A - Legal Description
Exhibit B - Site Plan
Exhibit C - Tenant Plans
Exhibit D - Contract Prices and Estimates
Exhibit E - Protective Covenants
Exhibit F - Estoppel Certificate

The First Amendment to Lease, dated December 31, 1999, consists of 6 pages and the following Exhibits:

Exhibit A - Site Plan
Exhibit B - Restated Estoppel Certificate

The Second Amendment to Lease, dated September 30, 2002, consists of 6 pages and the following Exhibit:

Exhibit A – Restated Estoppel Certificate

The Third Amendment to Lease, dated February 1, 2004, consists of 3 pages and no Exhibits.

Exhibit A – Restated Estoppel Certificate

The Fourth Amendment to Lease, dated May 20, 2004, consists of 4 pages and the following Exhibits:

Exhibit #1 - Total Area Released
Exhibit #2 - Dedicated Parking Area
Exhibit #3 – Restated Estoppel Certificate

14. That there are no agreements between the Landlord and the Tenant other than as stated and provided in the above described Lease, Lease Amendments and their respective Exhibits;

15. That exceptions to the above statements 1 to 14 are set forth hereinafter (if none, state none):

_____
_____
_____

16. That this certificate is being made to: _____ and said party may rely on the truthfulness of the statements set forth herein.

This Estoppel Certificate is dated this ____ day of _____ 20____ .

TENANT:
ALLSCRIPTS, LLC, a Delaware limited liability company

Secretary

President

EXHIBIT #3

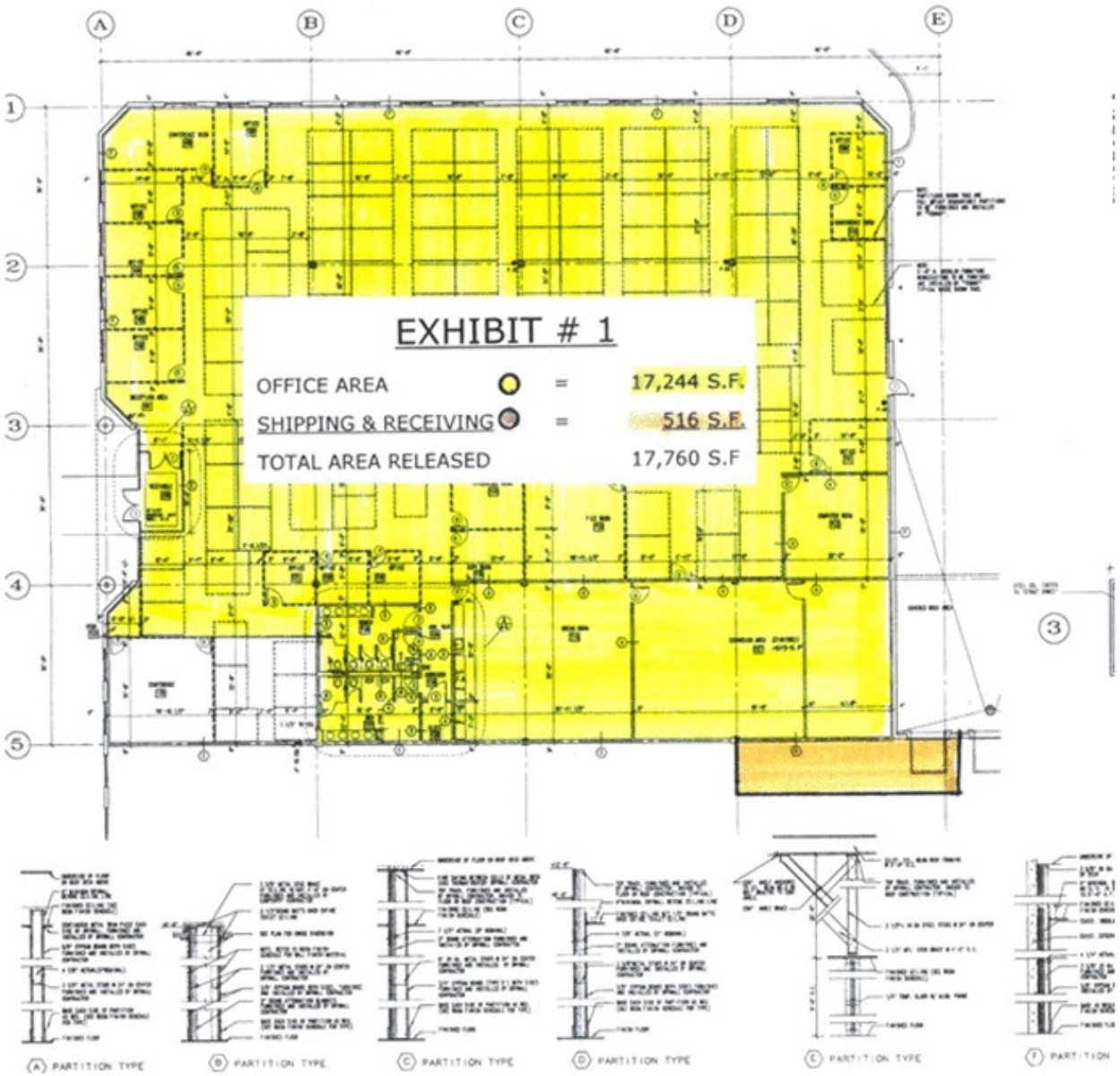
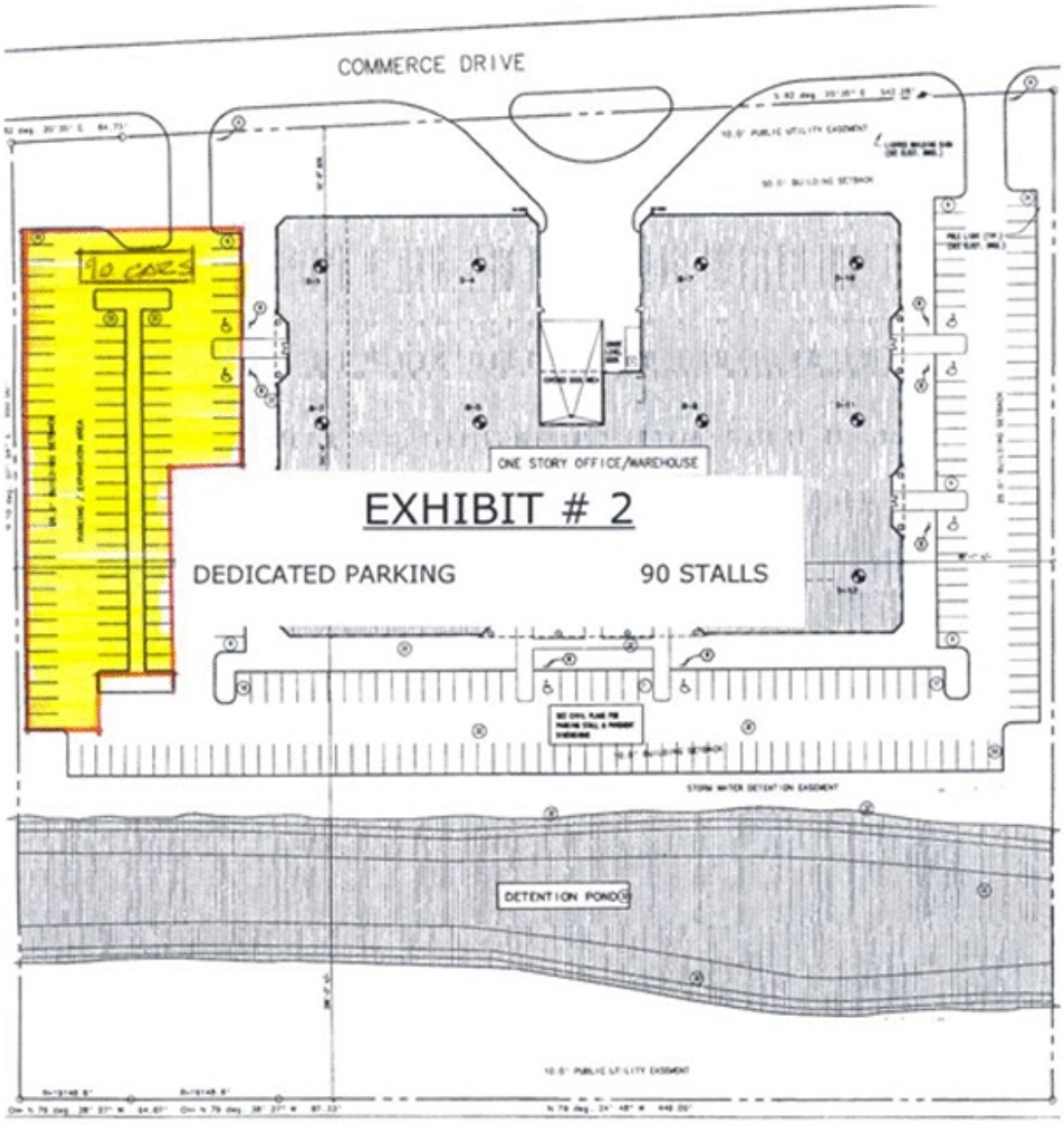
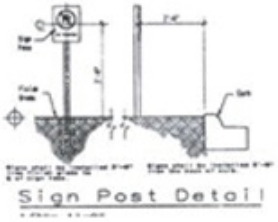


EXHIBIT # 1
OFFICE AREA = 17,244 S.F.
SHIPPING & RECEIVING = 516 S.F.
TOTAL AREA RELEASED 17,760 S.F
A
B
C
D
E
1
2
3
4
5


COMMERCE DRIVE
90 CARS
ONE STORY OFFICE/WAREHOUSE
EXHIBIT # 2
DEDICATED PARKING
90 STALLS
DETENTION POND
WINCHESTER ROAD

SITE PLAN


Sign Post Detail


STOP
A
B
C
Sign Legend

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

- ***Patient Information.*** As part of the operation of our business, our customers provide to us patient-identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. Government and industry legislation and rulemaking, especially the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and standards and requirements published by industry groups such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), require the use of standard transactions, standard identifiers, security and other standards and requirements for the transmission of certain electronic health information. New national standards and procedures under HIPAA include the *"Standards for Electronic Transactions and Code Sets"* (the Transaction Standards); the *"Security Standards"* (the Security Standards); and *"Standards for Privacy of Individually Identifiable Health Information"* (the Privacy Standards). The Transaction Standards require the use of specified data coding, formatting and content in all specified "Health Care Transactions" conducted electronically. The Security Standards require the adoption of specified types of security for health care information. The Privacy Standards grant a number of rights to individuals as to their identifiable confidential medical information (called Protected Health Information) and restrict the use and disclosure of Protected Health Information by Covered Entities. Generally, the HIPAA standards directly affect Covered Entities, defined as "health care providers, health care payers, and health care clearinghouses." We have reviewed our activities and believe that we are a covered entity under HIPAA to the extent that we maintain a "group health plan" for the benefit of our employees. Such a plan, even if not a separate legal entity from us as its sponsor, is included in the HIPAA definition of covered entities. We have taken steps we believe to be appropriate and required to bring our group health plan into compliance with HIPAA. We believe that we are not a covered entity as a health care provider or as a health care clearinghouse; however, the definition of a health care clearinghouse is broad, generally encompassing companies that process or facilitate the processing of health information received from another entity in a non-standard format or containing nonstandard data content into standard elements or a standard transaction or vise-versa and there is, as yet, little interpretive guidance from the HIPAA regulators on this point. Accordingly, we cannot offer any assurance that we could not be considered a health care clearinghouse under HIPAA or that, if we are determined to be a healthcare clearinghouse, the consequences would not be material and adverse to our business and operations. In addition, the Privacy Standards affect third parties that create or access Protected Health Information in order to perform a function or activity on behalf of a Covered Entity. Such third parties are called "Business Associates." Covered Entities must have a written "Business Associate Agreement" with such third parties, containing specified written "satisfactory assurances" that the third party will safeguard Protected Health Information that it creates or accesses and will fulfill other material obligations to support the covered entity's own HIPAA compliance. Most of our customers are Covered Entities and we function in many of our relationships as a business associate of those customers. We would face liability under our Business Associate Agreements, as it would under any other contractual agreement, if we do not comply with our business associate obligations. In addition, the federal agencies with enforcement authority have taken the position that a covered entity can be subject to HIPAA penalties and sanctions for a breach of a business associate agreement. The penalties for a violation of HIPAA by a covered entity are significant and could have a material adverse impact upon us, were such penalties ever to be imposed. Additionally, Covered Entities will be required to adopt a unique standard National Provider Identifier (NPI), for use in filing and processing health care claims and other transactions. Subject to the discussion set forth above, we believe that the principal effects of HIPAA are, or will be, first, to require that our systems be capable of being operated by our customers in a manner that is compliant with the various HIPAA standards and, second, to require us to enter into and comply with Business Associate Agreements with our Covered Entity customers. For most Covered Entities, the deadlines for compliance with the Privacy Standards and the Transaction Standards occurred in 2003. Covered Entities must be in compliance with the Security Standards by April 20, 2005, and must use

N PIs in standard transactions no later than the compliance dates, which are May 23, 2007, for all but small health plans and one year later for small health plans. We have policies and procedures that we believe assure compliance with all federal and state confidentiality requirements for handling of Protected Health Information that we receive and with our obligations under Business Associate Agreements, subject to the discussion of HIPAA above. In particular, we believe that our systems and products are capable of being used by our customers in compliance with the Transaction Standards and are, or will be, capable of being used by our customers in compliance with the Security Standards and the NPI requirements. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent the unauthorized disclosure of confidential medical information, we could be subject to liability, fines and lawsuits, termination of our customer contracts, or our operations could be shut down. Moreover, because all HIPAA Standards are subject to change or interpretation and because certain other HIPAA Standards, not discussed above, are not yet published, we cannot predict the future impact of HIPAA on our business and operations. In the event that the Privacy Standards and other HIPAA compliance requirements change or are interpreted in a way that requires material change to the way in which we do business, it could have a material adverse effect on our business, results of operations and prospects. Additionally, certain state laws are not pre-empted by the HIPAA Standards and may impose independent obligations upon our customers or us. Additional legislation governing the acquisition, storage, and transmission or other dissemination of health record information and other personal information, including social security numbers, has been proposed at both the state and federal level. Such legislation may require holders of such information to implement additional security, reporting or other measures that may require substantial expenditures and may impose liability for a failure to comply with such requirements. In many cases, such proposed state legislation includes provisions that are not preempted by HIPAA. There can be no assurance that changes to state or federal laws will not materially restrict the ability of providers to submit information from patient records using our products and services.

EXHIBIT 10.26

ALLSCRIPTS, INC.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, (this **"Agreement"**) is effective as of this 8th day of October, 2002, by and between Allscripts, Inc., a corporation organized and existing under the laws of the State of Illinois, with its principal place of business at 2401 Commerce Drive, Libertyville, Illinois 60048 (**"Company"**) and William J. Davis (**"Executive"**).

RECITALS

WHREAS, Company desires to employ Executive as its Chief Financial Officer; and

WHEREAS, Executive desires to be employed by Company in the aforesaid capacity.

NOW THEREFORE, in consideration of the foregoing premises, of the mutual agreements and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

AGREEMENT

1. Employment.

Company hereby agrees to employ Executive, and Executive hereby accepts employment, as Chief Financial Officer of Company, pursuant to the terms of this Agreement. Executive shall have the duties and responsibilities and perform such administrative and managerial services of that position as are set forth in the bylaws of Company (the **"Bylaws"**) or as shall be delegated or assigned to Executive by the Chief Executive Officer of Company (the " **CEO**") from time to time. Executive shall report to the CEO and carry out his responsibilities hereunder on a full-time basis for and on behalf of Company; provided that Executive shall be entitled to devote time to outside boards of directors (with the prior approval of the CEO), personal investments and civic and charitable activities, personal education and development, so long as such activities do not interfere with or conflict with Executive's duties hereunder. Notwithstanding the foregoing, Executive agrees that, during the term of this Agreement, Executive shall not act as an officer of any entity other than Company without the prior written consent of Company.

2. Effective Date and Term.

The initial term of Executive's employment by Company under this Agreement shall commence as of October 8, 2002 (the **"Effective Date"**) and shall continue in effect for a term of two (2) years, unless earlier terminated as provided herein. Thereafter, this Agreement shall automatically renew for additional and successive terms of one (1) year each, unless either Company or Executive elects not to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of such non-renewal to the other party at least

one hundred eighty (180) days prior to the expiration of the then current term. As used herein, the term **"Employment Period"** shall mean the period from the Effective Date until the termination of the Agreement **(i)** for non-renewal pursuant to this Section 2, or **(ii)** pursuant to Section 4 herein.

3. Compensation and Benefits.

In consideration for the services Executive shall render under this Agreement, Company shall provide or cause to be provided to Executive the following compensation and benefits:

3.1 Base Salary. During the Employment Period, Company shall pay to Executive an annual base salary at a rate of two hundred twenty-five thousand dollars ($225,000) per annum, subject to all appropriate federal and state withholding taxes, which base salary shall be payable in accordance with Company's normal payroll practices and procedures. Executive's base salary shall be reviewed annually prior to the beginning of each Fiscal Year (as defined below) during the Employment Period by the CEO or the Board of Directors of Company (the **"Board"**), or a committee of the Board, and may be increased in the sole discretion of the CEO, Board, or such committee of the Board, based on Executive's performance during the preceding Fiscal Year. For purposes of this Agreement, the term **"Fiscal Year"** shall mean the fiscal year of the Company, commencing on January 1 of each year and ending on December 31. Executive's base salary, as such base salary may be increased annually hereunder, is hereinafter referred to as the **"Base Salary."**

3.2 Performance Bonus. Executive shall be eligible to receive a cash bonus with respect to each Fiscal Year (after 2002) of Company that ends during the term of this Agreement (the **"Performance Bonus"**). Payment of the Performance Bonus, if any, will be subject to the sole discretion of the CEO, Board or a committee of the Board, and the amount of any such Performance Bonus will be determined by, and based upon criteria selected by, the CEO, Board or such committee, but in no event shall be less than seventy five thousand dollars ($75,000). In addition, Executive shall receive a bonus with respect to fiscal year 2002 of fifteen thousand dollars ($15,000). Bonuses are payable after completion and certification of the audited financial statements for the Fiscal Year in question.

3.3 Benefits. During the Employment Period and as otherwise provided hereunder, Executive shall be entitled to the following:

3.3.1 Vacation. Executive shall be entitled to twenty (20) business days per Fiscal Year of paid vacation, such vacation time not to be cumulative (i.e., vacation time not taken in any Fiscal Year shall not be carried forward and used in any subsequent Fiscal Year).

3.3.2 Participation in Benefit Plans. Executive shall be entitled to health and/or dental benefits, including immediate coverage for Executive and his eligible dependents, which are generally available to Company's senior executive employees and as provided by Company in accordance with its group health insurance plan coverage. In addition, Executive shall be entitled to participate in any profit sharing plan, retirement plan, group life insurance plan or other insurance plan or medical expense plan maintained by the Company for its senior executives generally, in accordance with the general eligibility criteria therein.

3.3.3 Physical Examination. Executive shall be entitled to receive reimbursement for the cost of one general physical examination per twelve (12) month period during the term of the Agreement from a physician chosen by Executive in his reasonable discretion.

3.3.4 Perquisites. Executive shall be entitled to such other benefits and perquisites that are generally available to Company's senior executive employees and as provided in accordance with Company's plans, practices, policies and programs for senior executive employees of Company.

3.3.5 Indemnification. Executive shall be entitled to indemnification (including immediate advancement of all legal fees with respect to any claim for indemnification) and directors' and officers' insurance coverage, to the extent made available to other senior executives, in accordance with the Bylaws and all other applicable policies and procedures of Company.

3.4 Expenses. Company shall reimburse Executive for proper and necessary expenses incurred by Executive in the performance of his duties under this Agreement from time to time upon Executive's submission to Company of invoices of such expenses in reasonable detail and subject to all standard policies and procedures of Company with respect to such expenses.

3.5 Stock Awards. Executive shall be eligible to participate in any applicable stock bonus, stock option, or similar plan implemented by Company and generally available to its senior executive employees, including, without limitation, Company's Amended and Restated 1993 Stock Incentive Plan approved by the Board and Company's shareholders on or about June 7, 1999 (the **"Plan"**) for the grant of options to Executive as approved by the Board.

4. Termination of the Agreement Prior To the Expiration.

This Agreement and the Employment Period of Executive may be terminated at any time as follows (the effective date of such termination hereinafter referred to as the **"Termination Date"**):

4.1 Termination upon Death or Disability of Executive.

4.1.1 This Agreement and the Employment Period shall terminate immediately upon the death of Executive. In such event, all rights of Executive and/or Executive's estate (or named beneficiary) shall cease except for the right to receive payment of the amounts set forth in Section 4.5.4 of the Agreement.

4.1.2 Company may terminate this Agreement and the Employment Period upon the disability of Executive. For purposes of this Agreement, Executive shall be deemed to be "disabled" if Executive, as a result of illness or incapacity, shall be unable to perform substantially his required duties for a period of three (3) consecutive months or for any aggregate period of three (3) months in any six (6) month period. In the event of a dispute as to whether Executive is disabled, Company may refer Executive to a licensed practicing physician of Company's choice, and Executive agrees to submit to such tests and examination as such

physician shall deem appropriate to determine Executive's capacity to perform the services required to be performed by Executive hereunder. In such event, the parties hereby agree that the decision of such physician as to the disability of Executive's shall be final and binding on the parties. Any termination of the Agreement under this Section 4.1.2 shall be effected without any adverse affect on Executive's rights to receive benefits under any disability policy of Company, but shall not be treated as a termination without cause.

4.2 Termination by Company for Cause. Company may terminate this Agreement and the Employment Period for Cause (as defined herein) upon written notice to Executive, which termination shall be effective on the date specified by Company in such notice; provided however, that Executive shall have a period of ten (10) days (or such longer period not to exceed 30 days as would be reasonably required for Executive to cure such action or inaction) after the receipt of the written notice from Company to cure the particular action or inaction, to the extent a cure is possible. For purposes of this Agreement, the term **"Cause"** shall mean:

4.2.1 the willful or grossly negligent failure by Executive to perform his duties and obligations hereunder in any material respect, other than any such failure resulting from the disability of Executive;

4.2.2 Executive's conviction of a crime or offense involving the property of Company, or any crime or offense constituting a felony or involving fraud or moral turpitude; provided that, in the event that Executive is arrested or indicted for a crime or offense related to any of the foregoing, then Company may, at its option, place Executive on paid leave of absence, pending the final outcome of such arrest or indictment;

4.2.3 Executive's violation of any law, which violation is materially and demonstrably injurious to the operations or reputation of Company; or

4.2.4 Executive's material violation of any generally recognized policy of Company, Executive's refusal to follow the lawful directions of the Board, or Executive's insubordination to his supervisor.

Notwithstanding the foregoing, any notice and lapse of time period provided in this Section 4.2 shall not be required with respect to any event or circumstance which is the same or substantially the same as an event or circumstance with respect to which notice and an opportunity to cure has been given within the previous six (6) months.

4.3 Termination without Cause. Either party may terminate this Agreement and the Employment Period without cause upon thirty (30) days prior written notice to the other party. If either party elects not to renew this Agreement for any renewal period pursuant to Section 2 hereof, such election shall not constitute a termination of the Employment Period without cause.

4.4 Termination by Executive for Constructive Discharge.

4.4.1 Executive may terminate this Agreement and the Employment Period, in accordance with the process set forth below, a result of a Constructive Discharge. For purposes of this Agreement **"Constructive Discharge"** shall mean:

(i) a failure of Company to meet its obligations in any material respect under this Agreement, including, but not limited to, any reduction in or failure to pay the Base Salary;

(ii) a material diminution in or other substantial adverse alteration in the nature or scope of Executive's responsibilities with Company;

(iii) Executive has been asked to relocate his principal place of business to a location that is more than fifty (50) miles from Company's offices located in Libertyville, Illinois; or

(iv) there has been a Change of Control of Company.

4.4.2 For purposes of this Agreement, a **"Change of Control"** shall mean any one of the following events:

(i) the acquisition by any person or group of beneficial ownership of stock possessing more than thirty percent (30%) of the outstanding securities of Company which generally entitle the holder thereof to vote for the election of directors (**"Voting Power"**), except that **(a)** no such person or group shall be deemed to own beneficially (1) any securities acquired directly from Company pursuant to a written agreement with Company, or (2) any securities held by the Company or a subsidiary of Company (**"Subsidiary"**), or any employee benefit plan (or related trust) of Company or a Subsidiary; and **(b)** no Change in Control shall be deemed to have occurred solely by reason of any such acquisition by a corporation with respect to which, after such acquisition, more than sixty percent (60%) of the then outstanding shares of common stock of such corporation and the Voting Power of such corporation are then beneficially owned, directly or indirectly, by the persons who were the beneficial owners of the stock and Voting Power of Company immediately before such acquisition, in substantially the same proportions as their ownership immediately before such acquisition; or

(ii) the individuals who constitute the Board as of the date of this Agreement (the **"Incumbent Board"**) cease for any reason other than their deaths to constitute at least a majority of the Board; provided that any individual who becomes a director after the date of this Agreement whose election or nomination for election by Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then comprising the Incumbent Board shall be considered, for purposes of this section, as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Company (as such terms are used in Rule 14a-11 under the 1934 Act); or

(iii) Company effects: **(a)** a merger, reorganization or consolidation of Company with respect to which the individuals and entities who were the respective beneficial owners of the shares of common stock and Voting Power of Company immediately before such merger, reorganization or consolidation do not, immediately after such merger, reorganization or consolidation, beneficially own, directly or indirectly, more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the Voting Power of the corporation resulting from such merger, reorganization, or consolidation; **(b)** a liquidation or dissolution of Company; or **(c)** a sale or other disposition of all or substantially all of the assets of Company.

4.4.3 For purpose of the foregoing definition, the terms "beneficially owned" and "beneficial ownership" and "person" shall have the meanings ascribed to them in SEC rules 13d-5(b) under the 1934 Act, and "group" means two or more persons acting together in such a way to be deemed a person for purposes of Section 13(d) of the 1934 Act.

4.4.4 In the event of a Constructive Discharge other than as a result of a Change in Control, Executive shall have the right to terminate this Agreement and receive the benefits set forth in Section 4.5.1 below, upon delivery of written notice to Company no later than the close of business on the sixtieth (60th) day following the effective date of a Constructive Discharge; provided, however, that such termination shall not be effective until the expiration of ten (10) days after receipt by Company of such written notice and Company has not cured such Constructive Discharge within the 10-day period. If Company so effects a cure, the Constructive Discharge notice shall be deemed rescinded and of no force or effect. Notwithstanding the foregoing, such notice and lapse of time shall not be required with respect to any event or circumstance which is the same or substantially the same as an event or circumstance with respect to which notice and an opportunity to cure has been given within the previous six (6) months. The effective date of a Constructive Discharge shall be: **(i)** in the event of a Constructive Discharge under Section 4.4.1(i) or (ii), the effective date of the event giving rise to the Constructive Discharge; or **(ii)** in the event of a Constructive Discharge under Section 4.4.1(iii), the date on which Executive receives notice of the request to relocate.

4.4.5 In the event of a Constructive Discharge as a result of a Change of Control, Executive shall have the right to terminate this Agreement and receive the benefits set forth in Section 4.5.2 upon delivery of written notice to Company no later than twelve (12) months following the effective date of the Change of Control.

4.5 Rights upon Termination. Upon termination of this Agreement and the Employment, the following shall apply:

4.5.1 Termination by Company Without Cause or for Constructive Discharge. If Company terminates the Employment Period without Cause (other than a non-renewal by Company under Section 2), or if Executive terminates the Employment Period as a result of a Constructive Discharge, Executive shall be entitled to receive payment of any Base Salary amounts that have accrued but have not been paid as of the Termination Date, and the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which

the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner that it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period). In addition, subject to Section 4.5.2, below, Company shall be obligated to pay Executive (or provide Executive with) the following benefits as severance:

(i) two (2) years of Executive's Base Salary, payable in twenty-four (24) equal monthly installments commencing on the Termination Date, equal to Executive's annual Base Salary in effect immediately prior to the Termination Date, such amount to be payable regardless of whether Executive obtains other employment and is compensated therefor (but only so long as Executive is not in violation of Section 5 hereof);

(ii) the Performance Bonus for the Fiscal Year in which the Termination Date occurs that would have been payable under Section 3.2 had there been no termination of the Employment Period (such Performance Bonus to be determined in the manner it would have been determined under Section 3.2 had there been no termination of the Employment Period), payable as follows: **(a)** fifty percent (50%) of such Performance Bonus shall be paid to Executive on the Termination Date; and **(b)** the remaining fifty percent (50%) shall be paid in twelve (12) equal monthly installments commencing on the fifteenth day of the first full month following the Termination Date;

(iii) continuation of Executive's then current enrollment (including family enrollment, if applicable) in all health and/or dental insurance benefits set forth in Section 3.2.2 for a period of twenty four (24) months following the Termination Date, with Executive's contribution to such plans as if Executive were employed by Company, such contributions to be paid by Executive in the same period (e.g., monthly, bi-weekly, etc.) as all other employees of Company; provided, however that Company may terminate such coverage if payment from Executive is not made within ten (10) days of the date on which Executive receives written notice from Company that such payment is due; and provided, further, that such benefits may be discontinued earlier to the extent that Executive becomes entitled to comparable benefits from a subsequent employer;

(iv) outplacement services, in an amount up to ten thousand dollars ($10,000), paid to Executive on exit; and

(v) any stock options or other awards granted to Executive pursuant to Section 3.5 that have not vested as of the Termination Date shall vest in full upon the Termination Date.

4.5.2 Additional Severance Upon Termination for Change of Control. If Executive terminates the Employment Period pursuant to Section 4.4 by reason of a Change of Control, then Executive shall be entitled to receive the compensation and benefits described in Section 4.5.1 (except for those benefits described in Sections 4.5.1(i) and (ii)) and the following additional benefits as severance:

(i) payment in a lump sum of an amount equal to the product of Executive's Base Salary in effect as of the Termination Date multiplied by 2.99; and

(ii) a lump sum payment of the minimum Performance Bonus amount of seventy five thousand dollars ($75,000), multiplied by 2.99.

4.5.3 Termination With Cause by Company or Without Cause by Executive. If Company terminates the Employment Period with Cause, or if Executive terminates the Employment Period other than as a result of a Constructive Discharge or a non-renewal under Section 2, Company shall be obligated to pay Executive **(i)** any Base Salary amounts that have accrued but have not been paid as of the Termination Date; and **(ii)** the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period). No other amounts shall be payable.

4.5.4 Termination Upon Death or Disability. If the Employment Period is terminated because of the death or disability of Executive, Company shall be obligated to pay Executive or, if applicable, Executive's estate, the following amounts: **(i)** earned but unpaid Base Salary; **(ii)** the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period); and **(iii)** the amount of Executive's Performance Bonus, if any, for the Fiscal Year in which the Termination Date occurs that would have been payable under Section 3.2 had there been no termination of the Employment Period (such Performance Bonus, if any, to be determined in the manner it would have been determined under Section 3.2 had there been no termination of the Employment Period), payable as follows: **(a)** fifty percent (50%) of such Performance Bonus shall be paid on the Termination Date; and **(b)** the remaining fifty percent (50%) shall be paid in twelve (12) equal monthly installments commencing on the fifteenth day of the first full month following the Termination Date.

4.5.5 Termination for Non-Renewal by Company. If the Employment Period is terminated by reason of a non-renewal by Company under Section 2, then Executive shall be entitled to receive payment of any Base Salary amounts that have accrued but have not been paid as of the Termination Date, and the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner that it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period). In addition, Company shall be obligated to pay Executive as severance one (1) year of Executive's Base Salary, payable in twelve (12) equal monthly installments

commencing on the Termination Date, equal to Executive's annual Base Salary in effect immediately prior to the Termination Date, such amount to be payable regardless of whether Executive obtains other employment and is compensated therefor (but only so long as Executive is not in violation of Section 5 hereof).

4.6 Effect of Notice of Termination. Any notice of termination by Company, whether for Cause or without cause, may specify that, during the notice period, Executive need not attend to any business on behalf of Company.

5. Noncompetition and Confidentiality.

5.1 Covenant Not to Compete. During the Employment Period and for a period of one (1) year after the expiration or earlier termination of the Employment Period (other than a termination by Company without Cause or a termination by Executive for Constructive Discharge), Executive shall not, **(i)** directly or indirectly act in concert or conspire with any person employed by Company in order to engage in or prepare to engage in or to have a financial or other interest in any business which is a Direct Competitor (as defined below); or **(ii)** serve as an employee, agent, partner, shareholder, director or consultant for, or in any other capacity participate, engage or have a financial or other interest in any business which is a Direct Competitor (provided, however, that notwithstanding anything to the contrary contained in this Agreement, Executive may own up to two percent (2%) of the outstanding shares of the capital stock of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934). For purposes of this Agreement, the term **"Direct Competitor"** shall mean any person or entity engaged in the business of marketing or providing within the continental United States prescription products or services for pharmacy benefit management products or services including, without limitation, prepackaged prescription products or services, point of care pharmacy dispensing systems, point of care decision support or clinical software for physicians, mail service pharmacy products or services, or pharmaceuticals or pharmaceutical delivery systems.

5.2 No Solicitation of Employees. During the Employment Period and for a period of one (1) year following the expiration or earlier termination of the Employment Period for any reason, Executive shall not, directly or indirectly, whether for its own account or for the account of any other individual or entity, **(i)** employ, hire or solicit for employment, or attempt to employ, hire or solicit for employment, any Employee (as defined below), **(ii)** divert or attempt to divert, directly or indirectly, or otherwise interfere in a material fashion with or circumvent Company's relationship with, any Employees, or **(iii)** induce or attempt to induce, directly or indirectly, any Employee to terminate his or her employment or other business relationship with Company. For purposes of this Section 5.2, "Employee" shall mean any person who is or was employed by Company during the Employment Period; provided, however, that "Employee" shall not include any person **(a)** whose employment with Company was terminated by Company without cause, or **(b)** who was not employed by Company at any time during the six (6) month period immediately prior to the Termination Date.

5.3 Confidential Information. Company has advised Executive, and Executive acknowledges, that it is the policy of Company to maintain as secret and confidential all Protected Information (as defined below), and that Protected Information has been and will be

developed at substantial cost and effort to Company. Executive shall not at any time, directly or indirectly divulge, furnish or make accessible to any person, firm, corporation, association or other entity (otherwise than as may be required in the regular course of Executive's employment), nor use in any manner, either during the Employment Period or after the termination of the Employment Period for any reason, any Protected Information, or cause any such information of Company to enter the public domain, except as required by law or court order. **"Protected Information"** means trade secrets, confidential and proprietary business information of Company, and any other information of Company, including but not limited to, customer lists (including potential customers), sources of supply, processes, plans, materials, pricing information, internal memoranda, marketing plans, internal policies, and products and services which may be developed from time to time by the company and its agents or employees, including Executive; provided, however, that information that is in the public domain (other than as a result of a breach of this Agreement), approved for release by Company or lawfully obtained from third parties who are not bound by a confidentiality agreement with Company, is not Protected Information.

5.4 Injunctive Relief. Executive acknowledges and agrees that the restrictions imposed upon him by this Section 5 and the purpose for such restrictions are reasonable and are designed to protect the Protected Information and the continued success of Company without unduly restricting Executive's future employment by others. Furthermore, Executive acknowledges that in view of the Protected Information of Company which Executive has or will acquire or has or will have access to and the necessity of the restriction contained in this Section 5, any violation of the provisions of this Section 5 would cause irreparable injury to Company and its successors in interest with respect to the resulting disruption in their operations. By reason of the foregoing, Executive consents and agrees that if he violates any of the provisions of this Section 5, the company and its successors in interest, as the case may be, shall be entitled, in addition to any other remedies that they may have, including monetary damages, to an injunction to be issued by a court of competent jurisdiction, restraining Executive from committing or continuing any violation of this Section 5.

6. Certain Additional Payments by Company .

Company agrees that:

6.1 Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 6) (a **"Payment"**) would be subject to the excise tax imposed by Section 4999 of the Code or if any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, being hereafter collectively referred to as the **"Excise Tax"**), then Executive shall be entitled to receive an additional payment (a **"Gross-Up Payment"**) in an amount such that after payment by Executive of all taxes (including interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

6.2 Subject to the provisions of Section 6.3, below, all determinations required to be made under this Section 6, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the accounting firm which is then serving as the auditors for Company (the **"Accounting Firm"**), which shall provide detailed supporting calculations both to Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the Change in Control, Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by Company. Any Gross-Up Payment, as determined pursuant to this Section 6, shall be paid by Company to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any good faith determination by the Accounting Firm shall be binding upon Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by Company should have been made (**"Underpayment"**), consistent with the calculations required to be made hereunder. In the event that Company exhausts its remedies pursuant to Section 6.3, below, and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by Company to or for the benefit of Executive.

6.3 Executive shall notify Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen (15) business days after Executive is informed in writing of such claim and shall apprise Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which Executive gives such notice to the company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

6.3.1 Give Company any information reasonably requested by Company relating to such claim;

6.3.2 Take such action in connection with contesting such claim as Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by Company;

6.3.3 Cooperate with Company in good faith in order effectively to contest such claim; and

6.3.4 Permit Company to participate in any proceedings relating to such claim;

provided, however, that Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs an expenses. Without limiting the foregoing provisions of this Section 6.3, the company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner; and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as Company shall determine; provided further, however, that if Company directs Executive to pay such claim and sue for a refund, Company shall advance the amount of such payment to Executive on an interest-free basis ad shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. further more, Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

6.4 If, after the receipt by Executive of an amount advanced by Company pursuant to Section 6.3 above, Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to Company's complying with the requirements of said interest paid or credited thereon, after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by Company pursuant to said Section 6.3, a determination is made that Executive shall not be entitled to any refund with respect to such claim and Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid; and the amount of such advance shall offset, to the extent thereof, the amount of the Gross-Up Payment required to be paid.

7. No Set-Off or Mitigation.

The Company's obligation to make the payments provided or in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and, except as otherwise provided herein, such amounts shall not be reduced whether or not Executive obtains other employment.

8. Payment of Certain Expenses.

Company agrees to pay promptly as incurred, to the fullest extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest by Company, Executive or others of the validity or enforceability of, or liability under, any provision of the Agreement (including as a result of any contest initiated by Executive about the amount of any payment due pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code; provided, however, that Company shall not be obligated to make such payment with respect to any contest in which Company prevails over Executive.

9. Indemnification.

To the fullest extent permitted by law, Company shall indemnify Executive (including the advancement of expenses) for any judgments, fines, amounts paid in settlement and reasonable expenses, including attorney's fees, incurred by Executive in connection with the defense or any lawsuit or other claim to which Executive is made a party by reason of being an officer, director or employee of Company or any of its Subsidiaries.

10. Miscellaneous.

10.1 Valid Obligation. This Agreement has been duly authorized, executed and delivered by Company and has been duly executed and delivered by Executive and is a legal, valid and binding obligation of Company and of Executive, enforceable in accordance with its terms.

10.2 No Conflicts. Executive represents and warrants that the performance by him of his duties hereunder will not violate, conflict with, or result in a breach of any provision of, any agreement to which he/she is a party.

10.3 Applicable Law. This Agreement shall be construed in accordance with the laws of the State of Illinois, without reference to Illinois' choice of law statutes or decisions.

10.4 Severability. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one ore more of the provisions hereof shall not affect the validity or enforceability of any other provision. In the event any clause of this Agreement is deemed to be invalid, the parties shall endeavor to modify that clause in a manner which carries out the intent of the parities in executing this Agreement.

10.5 No Waiver. The waiver of a breach of any provision of this Agreement by any party shall not be deemed or held to be a continuing waiver of such breach or a waiver of any subsequent breach of any provision of this Agreement or as nullifying the effectiveness of such provision, unless agreed to in writing by the parties.

10.6 Notices.

All demands, notices, requests, consents and other communications required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by facsimile machine (with a confirmation copy sent by one of the other methods authorized in this

Section), or by commercial overnight delivery service, to the parties at the addresses set forth below:

To Company:	Allscripts, LLC. 2401 Commerce Drive Libertyville, Illinois 60048 Attention: Chief Executive Officer
with a copy to:	Akin, Gump, Strauss, Hauer & Feld, L.L.P. 1333 New Hampshire Avenue, N.W. Washington, D.C. 20036 Attention: Philip Green
To Executive:	at current address on file with the Company

Notices shall be deemed given upon the earliest to occur of **(i)** receipt by the party to whom such notice is directed, if hand delivered; **(ii)** if sent by facsimile machine, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) such notice is sent if sent (as evidenced by the facsimile confirmed receipt) prior to 5:00 p.m. Central Time and, if sent after 5:00 p.m. Central Time, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) after which such notice is sent; or **(iii)** on the first business day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) following the day the same is deposited with the commercial carrier if sent by commercial overnight delivery service. Each party, by notice duly given in accordance therewith may specify a different address for the giving of any notice hereunder.

10.7 Assignment of Agreement. This Agreement shall be binding upon and inure to the benefit of Executive and Company, their respective successors and permitted assigns and Executive's heirs and personal representatives. Neither party may assign any rights or obligations hereunder to any person or entity without the prior written consent of the other party. This Agreement shall be personal to Executive for all purposes.

10.8 Entire Agreement; Amendments. Except as otherwise provided herein, this Agreement contains the entire understanding between the parties, and there are no other agreements or understandings between the parties with respect to Executive's employment by Company and his obligations thereto. Executive acknowledges that he is not relying upon any representations or warranties concerning his employment by Company except as expressly set forth herein. No amendment or modification to the Agreement shall be valid except by a subsequent written instrument executed by the parties hereto.

10.9 Dispute Resolution and Arbitration. The following procedures shall be used in the resolution of disputes:

10.9.1 Dispute. In the event of any dispute or disagreement between the parties under this Agreement, the disputing party shall provide written notice to the other party that such dispute exists. The parties will then make a good faith effort to resolve the dispute or disagreement. If the dispute is not resolved upon the expiration of fifteen (15) days from the date

a party receives such notice of dispute, the entire matter shall then be submitted to arbitration as set forth in Section 10.9.2.

10.9.2 Arbitration. If the dispute or disagreement between the parties has not been resolved in accordance with the provisions of Section 10.9.1 above, then any such controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration to be held in Chicago, Illinois, in accordance with the rules of the American Arbitration Association then in effect. Any decision rendered herein shall be final and binding on each of the parties and judgement may be entered thereon in the appropriate state or federal court. The arbitrators shall be bound to strict interpretation and observation of the terms of this Agreement. The company shall pay the costs of arbitration.

10.10 Survival. The provisions of Sections 4.5, 5, 8 and 9 of this Agreement shall survive the expiration or earlier termination of the Agreement.

10.11 Headings. Section headings used in this Agreement are for convenience of reference only and shall not be used to construe the meaning of any provision of this Agreement.

10.12 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

[Signature page follows]

IN WITNESS WHREOF, the parties have executed this Agreement as of the date and year first above written.

ALLSCRIPTS, LLC.

By: /s/ Glen E. Tullman
Name: Glen E. Tullman
Title: Chairman, Chief Executive Officer

EXECUTIVE:

By: /s/ *William J. Davis*
Name: William J. Davis

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES
Ratios of Earnings to Fixed Charges

($ in thousands)	2002	2003	2004
Net Income(loss) from continuing operations	**($17,681)**	**($6,337)**	**$3,243**
Plus Fixed charges:			
Interest Expense	—	—	1,404
Debt Cost Amortization	—	—	313
Portion of rents representative of the interest factor	313	381	438
Total fixed charges (1)	**$313**	**$ 381**	**$2,155**
Adjusted earnings (2)	**(17,368)**	**(5,956)**	**5,398**
Ratio (2 divided by 1)	**—**	**—**	**2.50**
Fixed Charges Deficiency	**$17,681**	**$6,337**	**$—**

EXHIBIT 21.1

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

SUBSIDIARIES

Subsidiary	Jurisdiction or State of Organization
Allscripts LLC	Delaware
Advanced Imaging Concepts, Inc.	Indiana

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Allscripts Healthcare Solutions, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-119351 and 333-52470) and Form S-8 (Nos. 333-37238, 333-90129, and 333-59212) of Allscripts Healthcare Solutions, Inc. of our reports dated February 19, 2004, relating to the consolidated balance sheet of Allscripts Healthcare Solutions, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years ended December 31, 2003 and 2002, and the related consolidated financial statement schedule, which reports appear in the December 31, 2004 annual report on Form 10-K of Allscripts Healthcare Solutions, Inc.

/s/ KPMG LLP

Chicago, Illinois
March 4, 2005

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Allscripts Healthcare Solutions, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-119351 and 333-52470) and Form S-8 (Nos. 333-37238, 333-90129, and 333-59212) of Allscripts Healthcare Solutions, Inc. of our report dated March 4, 2005, relating to the consolidated balance sheet of Allscripts Healthcare Solutions, Inc. and subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year ended December 31, 2004, and the related consolidated financial statement schedule, which reports appear in the December 31, 2004 annual report on Form 10-K of Allscripts Healthcare Solutions, Inc. We also consent to the incorporation by reference of our report on management's assessment of the effectiveness of internal control over financial reporting included in the annual report of Allscripts Healthcare Solutions, Inc. on Form 10-K for the year ended December 31, 2004 in those registration statements.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 4, 2005

Exhibit 31.1

Certification

I, Glen E. Tullman, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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: March 4, 2005

/s/ Glen E. Tullman

Chairman and Chief Executive Officer

Exhibit 31.2

Certification

I, William J. Davis, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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: March 4, 2005

/s/ William J. Davis
Chief Financial Officer

EXHIBIT 32.1

The following statement is being made to the Securities and Exchange Commission solely for purposes of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), which carries with it certain criminal penalties in the event of a knowing or willful misrepresentation.

Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C 20549

Re: Allscripts Healthcare Solutions, Inc.

Ladies and Gentlemen:

In accordance with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 USC 1350), each of the undersigned hereby certifies that:

(i) this Annual Report on Form 10-K for the year ended December 31, 2004, which this statement accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in this annual report on Form 10-K for the year ended December 31, 2004, fairly presents, in all material respects, the financial condition and results of operations of Allscripts Healthcare Solutions, Inc.

Dated as of this 4th day of March, 2005.

/s/ Glen E. Tullman	/s/ William J. Davis
Glen E. Tullman	**William J. Davis**
Chief Executive Officer	**Chief Financial Officer**

A signed original of this written statement required by Section 906 has been provided to Allscripts Healthcare Solutions, Inc. and will be retained by Allscripts Healthcare Solutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.