

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

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**FORM 10-Q**

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

For the quarterly period ended February 28, 2009

OR

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

Commission file number 000-32085

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**ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

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

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

**222 Merchandise Mart, Suite 2024**  
**Chicago, IL 60654**  
(Address of principal executive offices)

**(866) 358-6869**  
(Registrant's telephone number, including area code)

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

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

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company

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

As of March 31, 2009, there were 142,633,781 shares of the registrant's \$0.01 par value common stock outstanding.

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**Explanatory Note**

On October 10, 2008, Allscripts Healthcare Solutions, Inc. (which changed its name to Allscripts-Misys Healthcare Solutions, Inc. on October 10, 2008, “Allscripts”) completed the transactions (the “Transactions”) contemplated by an Agreement and Plan of Merger dated as of March 17, 2008 by and among Misys plc, Misys Healthcare Systems, LLC (“MHS”), Allscripts and Patriot Merger Company, LLC. The Transactions are described in greater detail in this Form 10-Q. As a result of the Transactions, MHS became a wholly-owned subsidiary of Allscripts and Allscripts changed its fiscal year to end on May 31. Since the Transactions constituted a “reverse acquisition” for accounting purposes, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts, with the results of legacy Allscripts being included for the full three months ended February 28, 2009 and from October 10, 2008 for the nine months ended February 28, 2009.

**ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.**

**FORM 10-Q**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	February 28, 2009	May 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$69,859	\$325
Marketable securities	5,046	—
Accounts receivable, net of allowances of \$10,755 and \$3,351 at February 28, 2009 and May 31, 2008, respectively	167,966	48,250
Deferred taxes, net	6,128	852
Inventories	6,079	1,918
Prepaid expenses and other current assets	30,047	9,950
Total current assets	285,125	61,295
Long-term marketable securities	2,559	—
Property and equipment, net	19,036	6,082
Software development costs, net	7,662	—
Intangible assets, net	238,670	8,637
Goodwill	412,252	82,406
Deferred taxes, net	—	8,254
Other assets	14,627	12,594
Total assets	<u>\$979,931</u>	<u>\$179,268</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$21,596	\$14,262
Accrued expenses	40,748	12,606
Accrued compensation and benefits	17,222	9,700
Line of credit	—	3,232
Deferred revenue	90,878	27,189
Current portion of long-term debt and capital lease obligation	901	1,082
Total current liabilities	171,345	68,071
Long-term debt and long-term capital lease obligation	66,704	548
Deferred taxes, net	20,054	—
Other liabilities	2,386	—
Total liabilities	260,489	68,619
Preferred stock:		
Undesignated, \$0.01 par value, 1,000 shares authorized, no shares issued and outstanding at November 30, 2008 and May 31, 2008	—	—
Common stock:		
\$0.01 par value, 199,000 shares authorized; 145,367 shares issued and outstanding at February 28, 2009; 82,886 shares issued and outstanding at May 31, 2008	1,454	829
Additional paid-in capital	878,430	283,133
Accumulated deficit	(160,652)	(173,313)
Accumulated other comprehensive income	210	—
Total stockholders' equity	719,442	110,649
Total liabilities and stockholders' equity	<u>\$979,931</u>	<u>\$179,268</u>

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

**ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
<b>Revenue:</b>				
System sales	\$27,375	\$17,906	\$61,166	\$49,170
Professional services	15,928	7,404	35,116	22,438
Maintenance	56,099	35,545	139,468	105,720
Transaction processing and other	52,847	36,264	133,201	109,394
Total software and services revenue	<u>152,249</u>	<u>97,119</u>	<u>368,951</u>	<u>286,722</u>
Prepackaged medications	8,454	—	13,154	—
Total revenue	<u>160,703</u>	<u>97,119</u>	<u>382,105</u>	<u>286,722</u>
<b>Cost of revenue:</b>				
System sales	15,031	10,089	34,445	26,266
Professional services	16,196	6,513	34,555	19,647
Maintenance	20,048	14,205	51,651	42,636
Transaction processing and other	19,481	13,929	50,846	42,192
Total software and services cost of revenue	<u>70,756</u>	<u>44,736</u>	<u>171,497</u>	<u>130,741</u>
Prepackaged medications	6,666	—	10,570	—
Total cost of revenue	<u>77,422</u>	<u>44,736</u>	<u>182,067</u>	<u>130,741</u>
Gross profit	<u>83,281</u>	<u>52,383</u>	<u>200,038</u>	<u>155,981</u>
Selling, general and administrative expenses	47,709	27,102	144,721	92,957
Research and development	9,913	8,684	28,798	28,281
Amortization of intangible assets	2,872	180	4,315	11,128
Income from operations	<u>22,787</u>	<u>16,417</u>	<u>22,204</u>	<u>23,615</u>
Interest expense	(96)	(76)	(1,650)	(206)
Interest income and other, net	91	19	376	52
Income before income taxes	<u>21,918</u>	<u>16,360</u>	<u>20,930</u>	<u>23,461</u>
Provision for income taxes	8,668	6,300	8,269	9,014
Net income	<u>\$13,250</u>	<u>\$10,060</u>	<u>\$12,661</u>	<u>\$14,447</u>
Net income per share—basic and diluted	<u>\$0.09</u>	<u>\$0.12</u>	<u>\$0.11</u>	<u>\$0.17</u>
Weighted-average shares of common stock outstanding used in computing basic net income per share	<u>146,121</u>	<u>82,886</u>	<u>115,741</u>	<u>82,886</u>
Weighted-average shares of common stock outstanding used in computing diluted net income per share	<u>151,081</u>	<u>82,886</u>	<u>118,082</u>	<u>82,886</u>

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

**ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	Nine Months Ended	
	February 28 and 29, respectively	
	2009	2008
Cash flows from operating activities:		
Net income	\$12,661	\$14,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,656	14,858
Stock-based compensation expense	3,152	2,018
Asset impairment loss	14,076	—
Deferred taxes	(375)	(1,764)
Provision for doubtful accounts	4,603	1,570
Changes in operating assets and liabilities:		
Accounts receivable	(35,883)	(16,805)
Prepaid expenses and other assets	(5,934)	(2,712)
Inventory	(209)	—
Accounts payable	(1,196)	(10,261)
Accrued expenses	(9,850)	(209)
Accrued compensation and benefits	(7,682)	(1,844)
Deferred revenue	19,300	(6,032)
Other non-current liabilities	(131)	64
Net cash provided by (used in) operating activities	7,188	(6,670)
Cash flows from investing activities:		
Purchase of preferred shares in iMedica	—	(8,000)
Capital expenditures	(3,461)	(619)
Capitalized software	(7,563)	—
Net proceeds received from sale of building	6,450	—
Purchase of marketable securities	(853)	—
Sales and maturities of marketable securities	1,641	—
Payments for acquisition of Allscripts	(329,494)	—
Net cash acquired in merger with Allscripts	65,728	—
Net cash used in investing activities	(267,552)	(8,619)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	907	—
Proceeds from employee stock purchase plan	460	—
Change in parent's net investment, including \$330,000 received from Misys plc	353,500	12,578
Line of credit payments	(41,915)	(81,462)
Line of credit borrowings	38,683	84,486
Payment on promissory note	(2,734)	—
Payment of capital lease obligation	(1,067)	(1,683)
Payment of credit facility	(3,000)	—
Repurchase of senior convertible notes	(8,164)	—
Repurchase of common stock	(6,772)	—
Net cash provided by financing activities	329,898	13,919
Net increase (decrease) in cash and cash equivalents	69,534	(1,370)
Cash and cash equivalents, beginning of period	325	1,370
Cash and cash equivalents, end of period	\$69,859	\$—

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

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

**1. Basis of Presentation**

On October 10, 2008, Allscripts Healthcare Solutions, Inc. (which changed its name to Allscripts-Misys Healthcare Solutions, Inc. on October 10, 2008) (together with its subsidiaries, "Allscripts" or the "Company" unless the context otherwise requires) completed the transactions (the "Transactions") contemplated by an Agreement and Plan of Merger dated as of March 17, 2008 by and among Misys plc, Misys Healthcare Systems, LLC ("MHS"), Allscripts and Patriot Merger Company, LLC. As a result of the Transactions, MHS became a wholly-owned subsidiary of Allscripts and Allscripts changed its fiscal year end to May 31. Since the Transactions constitute a "reverse acquisition" for accounting purposes, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts with legacy Allscripts results being included from October 10, 2008.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The interim consolidated financial statements include the consolidated accounts of Allscripts-Misys Healthcare Solutions, Inc. and its wholly-owned subsidiaries with all significant intercompany transactions eliminated. In management's opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements of MHS for the year ended May 31, 2008, which were included in Allscripts' definitive proxy statement, filed with the SEC on August 21, 2008. Operating results for the three and nine months ended February 28, 2009 are not necessarily indicative of the results for the full year.

As a result of the reverse acquisition, the historical operations of MHS have been presented as the historical financial statements of Allscripts. General corporate expenses incurred prior to October 10, 2008 and reported in the prior period financial statements contain allocations of operating costs between MHS and its former parent, Misys plc. These costs include executive salaries, accounting and legal fees, departmental costs for accounting, finance, legal, information technology, purchasing, marketing, human resources as well as other general overhead costs. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues and number of employees. Management believes these allocations are made on a reasonable basis; however, the financial statements included herein may not necessarily reflect Allscripts results of operations, financial position and cash flows in the future or what its results of operations, financial position and cash flows would have been had MHS operated as a stand-alone entity prior to October 10, 2008.

**2. Revenue Recognition**

Revenue represents the fair value of consideration received or receivable from clients for goods and services provided by the Company. Revenue from System Sales includes software and related hardware. Revenue from Professional Services includes implementation, training and consulting services. Revenue from Maintenance includes post contract customer support and maintenance services. Revenue from Transaction Processing and Other includes EDI services. Revenue from prepackaged medications includes the sale of medications and pharmaceutical products.

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 or renewed.

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 objective 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.

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Revenue from certain value-added reseller (“VAR”) relationships in which software is directly sold to VARs is recognized upon delivery of the software in accordance with SOP 97-2 assuming all other revenue recognition criteria have been met. In certain instances, the ultimate end-user customers of the VARs will separately contract with Allscripts to perform implementation services relating to the software purchased. Under the provisions of SOP 97-2 these two independent transactions are accounted for separately with the software sold to the VARs being recognized upon software delivery and the implementation services contracted separately with the end-user VAR customers being recognized as the work is performed.

Certain of our customer arrangements 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 separation criteria in EITF 00-21, the deliverables are separated into separate units of accounting, and revenue is allocated to the deliverables based on their 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 are 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.

In accordance with Emerging Issues Task Force Issue Number 01-14, Income Statement Characterization of Reimbursements Received for “Out-of-Pocket” Expenses Incurred (“EITF 01-14”), the Company records reimbursements for out-of-pocket expenses incurred as revenue in the statement of operations. These amounts totaled approximately \$2,695 and \$2,609, for the nine months ended February 28, 2009 and February 29, 2008, respectively.

Maintenance fees are recognized ratably over the period of the contract based on vendor specific objective evidence of fair value. Revenue from EDI services is recognized as services are provided and is determined based on the volume of transactions processed. Revenue from the sale of prepackaged 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.”

As of February 28, 2009 and May 31, 2008, there was \$38,910 and \$16,601, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue is comprised of balances related to software and services and balances due to support and maintenance. Deferred revenue consisted of the following:

	February 28, 2009	May 31, 2008
Prepayments and billings in excess of revenue earned on contracts in progress for software and services provided by Allscripts	\$34,928	\$18,346
Prepayments and billings in excess of revenue earned on contracts in progress for support and maintenance provided by Allscripts	55,950	8,843
Total deferred revenue	<u>\$90,878</u>	<u>\$27,189</u>

### 3. Business Combinations

#### *Allscripts Healthcare Solutions, Inc. and Misys Healthcare Systems*

On March 17, 2008, Allscripts entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Misys plc (“Misys”), a public limited company incorporated under the laws of England and Wales, MHS, a North Carolina limited liability company and wholly-owned indirect subsidiary of Misys and Patriot Merger Company, LLC, a North Carolina limited liability company and wholly-owned subsidiary of Allscripts (“Patriot”).

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On October 10, 2008, Allscripts and MHS completed the transactions (the “Transactions”) contemplated by the Merger Agreement. As a result of the completion of the Transactions, MHS became a wholly-owned subsidiary of Allscripts in a reverse merger, Misys plc purchased \$330,000 of Allscripts common stock and Misys plc obtained a controlling interest in Allscripts. In connection with the closing of the Transactions, Allscripts issued an aggregate of 82,886 shares of its common stock to two subsidiaries of Misys plc, which as of the closing of the Transactions, represents approximately 56.8% of the number of outstanding shares of Allscripts common stock. Management believes that the Transactions will significantly enhance the Business’s position in the overall healthcare information technology sector and create an industry leader in the electronic health records (“EHR”) and practice management (“PM”) markets. The combined company has a client base of approximately 150,000 U.S. physicians and 700 hospitals and is positioned to help physicians provide better patient care, manage their business more effectively and connect with their patients and other key healthcare stakeholders.

The Allscripts and MHS merger has been accounted for as a business combination under Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations.” As MHS is the accounting acquiror, the historical financial statements are those of MHS. The assets acquired and liabilities assumed of Allscripts have been recorded at the date of acquisition at their respective fair values.

The results of operations of Allscripts are included in the accompanying consolidated statements of operations from the date of the Allscripts and MHS merger, October 10, 2008. The total preliminary purchase price for the acquisition, subject to finalization of the working capital adjustment as defined in the merger agreement, is \$569,198 and is comprised of the following:

Fair value of Allscripts Healthcare Solutions, Inc. (62,998 Allscripts common shares at \$8.77, the closing stock price of Allscripts on October 10, 2008)	\$552,494
Share-based compensation value	10,567
Acquisition-related transaction costs	6,137
Total preliminary purchase price	<u>\$569,198</u>

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

The purchase price has been preliminarily allocated as follows:

Acquired cash and marketable securities	\$410,077
Accounts receivable, net	88,436
Prepays and other current assets	18,578
Fixed assets and other long-term assets	24,695
Goodwill	329,817
Intangible assets	239,400
Deferred tax liability, net	(23,407)
Accounts payable and accrued liabilities	(391,580)
Deferred revenue	(44,389)
Long-term debt	(80,602)
Other liabilities	(1,827)
Net assets acquired	<u>\$569,198</u>



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Goodwill was determined based on the residual difference between the purchase cost and the value assigned to tangible and intangible assets and liabilities, and is not deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were Allscripts' history of profitability and high operating margins, strong sales force and overall employee base, and leadership position in the healthcare information technology market.

We have allocated \$329,817 to goodwill and \$239,400 to intangible assets. Allocated goodwill consists of \$243,976, \$66,203 and \$19,638 attributed to the clinical solutions, health solutions and prepackaged medications segments as of the date of the October 10, 2008 acquisition, respectively. Of the \$239,400 of acquired intangible assets, \$53,000 was assigned to registered trade names, which have an indefinite life and are not subject to amortization. The remaining \$186,400 of intangible assets acquired consist of the following; \$49,000 was assigned to service and maintenance contracts with a useful life of 20 years, \$47,000 was assigned to developed technology rights with a useful life of 7 years, \$38,000 was assigned to core technology with a useful life of 12 years, \$23,000 was assigned to customer relationships with a useful life of 20 years, \$15,000 was assigned to ASP contracts with a useful life of 15 years, \$7,000 was assigned to service and maintenance contract backlog with a useful life of 2 years, \$5,000 was assigned to provider relationships with a useful life of 13 years, \$2,000 was assigned to service backlog with a useful life of 3 years and \$400 was assigned to Allscripts' non-compete agreement with a useful life of 1 year. The intangible assets are being amortized on a straight-line basis over their average useful lives. The above values and lives are subject to change upon completion of the valuation process.

The following unaudited pro forma information assumes the Allscripts and MHS merger occurred at the beginning of each of the periods being presented. The unaudited pro forma supplemental results have been prepared based on estimates and assumptions, which we believe are reasonable and are not necessarily indicative of the consolidated financial position or results of income had the Transactions occurred at the beginning of each of the periods being presented, nor of future results of operations. The unaudited pro forma results for the three and nine months ended February 28, 2009 and February 29, 2008 are as follows:

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
Total revenue	\$160,703	\$163,068	\$502,881	\$417,372
Net income	\$13,250	\$10,514	\$28,638	\$12,915
Earnings per share:				
Basic	\$0.09	\$0.08	\$0.20	\$0.09
Diluted	\$0.09	\$0.08	\$0.20	\$0.09

The unaudited pro forma information for the three and nine months ended February 28, 2009 and February 29, 2008, respectively, include the following adjustments:

- Decrease in revenue for the nine months ended February 28, 2009 and February 29, 2008 of approximately \$3,698 and \$8,893, respectively, and a decrease in revenue for the three months ended February 29, 2008 of \$3,705, relating to deferred revenue purchase accounting adjustments.
- Increase in net income of approximately \$53,344 for the nine months ended February 28, 2009, which represents pre-merger related costs that would have been excluded from earnings due to the pro forma information assuming that the merger occurred on June 1, 2008. There were no pre-merger costs recorded in the three and nine months ended February 29, 2008.
- Decrease to amortization expense of approximately \$230 and \$611 for the three and nine months ended February 29, 2008, and \$1,067 for the nine months ended February 28, 2009, related to management's estimate of the fair value of intangible assets acquired as a result of the Transactions that were completed on October 10, 2008. These decreases were due to the elimination of all legacy Allscripts' historical intangible asset and capitalized software amortization for all applicable periods offset by the new amortization based on the fair value of intangibles acquired.
- On September 30, 2008, legacy Allscripts closed on the sale of the Physicians Interactive business ("PI"). The revenue and net income for PI has been excluded for the three and nine months ended February 28, 2009 and February 29, 2008, respectively.

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#### 4. Stock-Based Compensation

During the three and nine months ended February 28, 2009 and February 29, 2008, Allscripts recorded stock-based compensation cost in accordance with SFAS 123(R) as follows:

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
Stock-based compensation:				
Allscripts-Misys Healthcare Solutions, Inc. stock-based compensation expense	\$1,317	\$—	\$1,685	\$—
Misys plc stock-based compensation expense	786	227	1,467	2,018
Total stock-based compensation	<u>\$2,103</u>	<u>\$227</u>	<u>\$3,152</u>	<u>\$2,018</u>

#### *Allscripts Stock Plan - Restricted Stock Awards and Units*

During the nine months ended February 28, 2009, management awarded 3,036 shares of restricted stock units to certain employees under the Amended and Restated 1993 Stock Incentive Plan, with a weighted average fair value of \$8.57 per share. The awards of restricted stock have an average four-year vesting term. Upon termination of an employee's employment with Allscripts, any unvested shares of restricted stock will be forfeited unless otherwise provided in an employee's employment agreement. As of February 28, 2009, 5,149 restricted stock awards and units combined had been awarded, of which 3,397 were unvested. The fair value of the shares of unvested restricted stock on the date of the grant is amortized ratably over the vesting period. As of February 28, 2009, \$19,570 of unearned compensation related to unvested awards of restricted stock was netted against the balance of additional paid in capital and will be recognized over the remaining vesting terms of the awards.

The following table summarizes the status of unvested restricted stock outstanding at February 28, 2009 and changes during the nine months then ended:

	Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at May 31, 2008	—	\$—
Unvested awards assumed as of October 10, 2008 Transactions	380	\$10.21
Awarded	3,036	\$8.57
Vested	—	\$—
Forfeited	(19)	\$10.04
Unvested restricted stock at February 28, 2009	<u>3,397</u>	<u>\$8.75</u>

#### *Allscripts Stock Plan - Stock Options*

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As of February 28, 2009, there was no unrecorded deferred stock-based compensation balance related to stock options. Allscripts did not grant any stock options during the nine months ended February 28, 2009.

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

	<u>Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted- Average Exercise Price</u>
Balance at May 31, 2008	—	\$—	—	\$—
Balance assumed as of October 10, 2008 Transactions	5,994	\$4.77		
Options exercised	(290)	\$3.26		
Options forfeited	(52)	\$11.76		
Balance at February 28, 2009	<u>5,652</u>	\$4.79	5,652	\$4.79

The aggregate intrinsic value of stock options outstanding as of February 28, 2009 was \$27,369, which is based on Allscripts' closing stock price of \$8.70 as of February 27, 2009. The intrinsic value of stock options outstanding represents the amount that would have been received by the option holders had all option holders exercised their stock options as of that date. The total number of vested and exercisable stock options as of February 28, 2009 was 5,652, with an intrinsic value of \$27,369.

The total intrinsic value of stock options exercised during the nine months ended February 28, 2009 was \$1,576. The total cash received from employees as a result of employee stock option exercises during the nine months ended February 28, 2009 was \$907, net of related taxes. Allscripts settles employee stock option exercises with newly issued common shares.

Information regarding stock options outstanding at February 28, 2009 is as follows:

<u>Range of Exercise Prices</u>	<u>Number of Options Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Number of Options Exercisable</u>	<u>Weighted- Average Exercise Price</u>
\$0.92-\$1.52	475	\$1.37	475	\$1.37
\$1.70-\$2.70	1,257	\$1.70	1,257	\$1.70
\$2.71-\$2.71	842	\$2.71	842	\$2.71
\$3.25-\$3.31	624	\$3.26	624	\$3.26
\$3.56-\$4.57	706	\$4.23	706	\$4.23
\$4.93-\$5.13	828	\$5.10	828	\$5.10
\$5.41-\$14.27	685	\$10.39	685	\$10.39
\$16.83-\$68.30	235	\$23.85	235	\$23.85
	<u>5,652</u>	\$4.79	<u>5,652</u>	\$4.79

The weighted average remaining contractual life of the options outstanding as of February 28, 2009 ranges from approximately 1 year to 6 years.

### ***Allscripts Employee Stock Purchase Plan***

The Employee Stock Purchase Plan ("ESPP") was effective at Allscripts Healthcare Solutions on the October 10, 2008 acquisition date and allows eligible employees to authorize payroll deductions of up to 20% of their base salary to be applied toward the purchase of full shares of common stock on the last day of the offering period. Offering periods under the ESPP are three months in duration and begin on each March 1, June 1, September 1, and December 1. Shares will be purchased on the last day of each offering period at a price of 95% of fair market value of the common stock on such date as reported on Nasdaq. The aggregate number of shares of Allscripts common stock that may be issued under the ESPP may not exceed 250 shares and no one employee may purchase any shares under the ESPP having a collective fair market value greater than \$25 in any one calendar year. The shares available for purchase under the ESPP may be drawn from either authorized but previously unissued shares of common stock or from reacquired shares of common stock, including shares purchased by Allscripts in the open market and held as treasury shares.

Allscripts treats the ESPP as a non-compensatory plan in accordance with SFAS No. 123(R). There were 21 shares purchased under the ESPP on December 31, 2008 and 31 shares purchased under the plan on February 28, 2009.

### ***Misys plc Stock Plan***

Misys plc operates several share based compensation plans. The Misys plc plans include both market price awards (options priced at fair value of Misys plc stock at date of grant) and nil cost awards (zero strike price). Certain of the awards include

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performance based vesting conditions, otherwise options vest over a service period, generally three years. Periodically, and in accordance with the plans, Misys plc grants share options to employees of Allscripts. The fair value of these awards is recorded as compensation cost over the term of vesting period.

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model. Additional information with respect to the plan activity related to Allscripts for the nine months ended February 28, 2009 is summarized as follows:

	Nil Cost		Market Value	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price
At May 31, 2008	1,832		5,272	5.67
Granted	3,129	1.17	—	—
Exercised	(399)		—	—
Canceled or expired	(154)		(1,616)	4.73
At February 28, 2009	4,408		3,656	4.73
Options exercisable	—		3,416	4.18

The weighted-average fair value of all options granted during the nine months ended February 28, 2009 was \$1.17 per share. The weighted-average remaining contractual term of options outstanding was 2.39 years as of February 28, 2009. The weighted average remaining contractual term of options exercisable was 1.08 years as of February 28, 2009. The total compensation cost related to non-vested awards not yet recognized as of February 28, 2009 was \$3,154 and the weighted average period over which it will be recognized is 1.46 years. The aggregate intrinsic value of all options outstanding and all options exercisable at February 28, 2009 was \$6,827 and \$0, respectively. The total intrinsic value of options exercised during the nine months ended February 28, 2009 was \$7,434.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2009:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0	4,408	3.09	\$0	—	\$0
\$2.50-\$3.42	1,755	2.21	\$2.97	1,515	\$2.90
\$3.77-\$3.80	1,025	1.40	\$3.81	1,025	\$3.80
\$4.39-\$9.41	874	0.35	\$6.78	874	\$6.78
\$15.09	2	1.05	\$15.09	2	\$15.09
	<u>8,064</u>			<u>3,416</u>	

## 5. Stock Repurchase Agreement with Misys plc and its Affiliates

On February 10, 2009, the Company entered into a Stock Repurchase Agreement (the “Repurchase Agreement”), with Misys plc, Misys Patriot Ltd. (“Misys UK Holdings”), and Misys Patriot US Holdings LLC (“Misys US Holdings” and collectively with Misys plc and Misys UK Holdings, “Misys”). Pursuant to the Repurchase Agreement, and during the two-year term of the Company’s open market purchase program, the Company has agreed to purchase from Misys, and Misys has agreed to sell to the Company, the number of shares of the Company’s common stock needed to keep Misys’ ownership percentage in the Company unaffected by the open market repurchases being made by the Company. The repurchase price for any shares acquired by the Company pursuant to the Repurchase Agreement will be the weighted average purchase price paid by the Company for all other shares acquired by the Company in the open market program.

During the nine months ended February 28, 2009, the Company repurchased and cancelled 503 shares of common stock from the open market and committed to purchase approximately 660 shares of common stock from Misys to ensure Misys’ ownership in Allscripts remains consistent at 56.8%. In total through February 28, 2009, the Company has repurchased 857 shares of common stock at an average price (excluding commissions) of \$9.21 per share for an aggregate purchase price of \$7,894 (excluding commissions), in which \$6,772 was paid for as of February 28, 2009. Since February 28, 2009 through April 9, 2009, the Company has purchased approximately 1,357 of additional shares of its common stock under the open market repurchase program and has purchased or committed to purchase approximately 1,779 shares of common stock under the Repurchase Agreement with an aggregate value of approximately \$30,796. The remaining authorized amount for stock repurchase under the program is approximately \$142,106, which program will terminate on February 10, 2011. There is no guarantee as to the exact number of shares or value thereof that will be repurchased under the stock repurchase program, and the Company may discontinue purchases at any time.

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<u>Period</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
12/1/08 – 12/31/08	—	\$—
1/1/09 – 1/31/09	—	—
2/1/09 – 2/28/09	857	\$142,106

## 6. Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalent balances at February 28, 2009 and May 31, 2008 consist of cash and money market funds with original 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:

	<u>February 28, 2009</u>	<u>May 31, 2008</u>
Cash and cash equivalents:		
Cash	\$56,209	\$325
Money market funds	<u>13,650</u>	<u>—</u>
	69,859	325
Short-term marketable securities:		
Corporate debt securities	<u>5,046</u>	<u>—</u>
	5,046	—
Long-term marketable securities:		
U.S. government and agency debt obligations	1,856	—
Corporate debt securities	<u>703</u>	<u>—</u>
	<u>2,559</u>	<u>—</u>
Total cash, cash equivalents and marketable securities	<u>\$77,464</u>	<u>\$325</u>

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157, *Fair Value Measurements* ("FAS 157"). FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. FAS 157 affected how assets and liabilities are measured at fair value in the financial statements and required additional disclosures of fair value methods and assumptions. The fair values are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in SFAS No. 157, are as follows:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

We adopted FAS 157 for financial assets and liabilities as required at the beginning of our fiscal year 2009 and the adoption did not have a material effect on our consolidated financial statements. All assets and liabilities that are required to be measured under FAS 157 are measured using Level 1 inputs.

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## 7. Comprehensive Income

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

The components of comprehensive income are as follows:

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
Net income	\$13,250	\$10,060	\$12,661	\$14,447
Other comprehensive income:				
Unrealized gain on marketable securities, net of tax	66	—	210	—
Comprehensive income	<u>\$13,316</u>	<u>\$10,060</u>	<u>\$12,871</u>	<u>\$14,447</u>

As of February 28, 2009, the components of accumulated other comprehensive income, net of income tax, consist of unrealized losses on Allscripts marketable securities. There were no investments outstanding as of May 31, 2008 and therefore no accumulated other comprehensive income (loss) to disclose. The components of the net unrealized gain on marketable securities, net of tax, are as follows:

	February 28, 2009
Short-term marketable securities:	
Gross unrealized gains	\$105
Gross unrealized losses	(18)
Net short-term unrealized gains	87
Long-term marketable securities:	
Gross unrealized gains	157
Gross unrealized losses	(34)
Net long-term unrealized gains	123
Total net unrealized gains on marketable securities	<u>\$210</u>

## 8. Net Income Per Share

Allscripts accounts for net income per share in accordance with FAS No. 128, "Earnings per Share" ("FAS 128"). FAS 128 requires the presentation of "basic" income per share and "diluted" income per share. Basic income per share is computed by dividing the net income by the weighted-average shares of outstanding common stock. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive potential common stock equivalents. Dilutive common stock equivalent shares consist primarily of stock options, restricted stock awards and conversion of the Senior Convertible Debentures.

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The components of net earnings available for diluted per-share calculation and diluted weighted average common shares outstanding are as follows:

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
Net earnings available for diluted per-share calculation:				
Net income	\$13,250	\$10,060	\$12,661	\$14,447
Interest expense on 3.5% Senior Convertible Notes, net of tax	208	—	—	—
Net earnings available for diluted per-share calculation	<u>\$13,458</u>	<u>\$10,060</u>	<u>\$12,661</u>	<u>\$14,447</u>
	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
Weighted average shares outstanding:				
Basic weighted average common shares	146,121	82,886	115,741	82,886
Dilutive effect of stock options and restricted stock awards	2,509	—	2,341	—
Dilutive effect of 3.5% Senior Convertible Notes	2,451	—	—	—
Diluted weighted average common shares	<u>151,081</u>	<u>82,886</u>	<u>118,082</u>	<u>82,886</u>

For the three and nine months ended February 29, 2008, the basic and diluted share count includes only the shares issued to Misys plc in connection with the October 10, 2008 transactions. MHS did not have any shares outstanding prior to the merger, and therefore, the basic and diluted share count is comprised of the Allscripts shares issued on the October 10, 2008 acquisition date for all periods prior to the acquisition date as this reflects the Allscripts shares equivalent of MHS equity prior to the acquisition. Total shares outstanding for purposes of determining the earnings per share for the three and nine months ended February 28, 2009 are comprised of the total legacy Allscripts shares outstanding at the date of the Transactions and the total shares issued to Misys plc at the merger date.

Under the provisions of EITF 04-8, the as-if converted 2,451 shares and interest expense related to Allscripts' 3.5% Senior Convertible Debentures due 2024 were excluded from the nine months ended February 28, 2009 as the effects were anti-dilutive.

## 9. Investment in Minority Interests

### *Medem*

On August 18, 2004, Allscripts entered into a Convertible Secured Promissory Note Purchase Agreement ("Note Purchase Agreement") with Medem and certain other investors. Under the Note Purchase Agreement, Allscripts acquired a convertible secured promissory note in the aggregate principal amount of \$2,600 ("Promissory Note") under which Medem borrowed \$2,600 from Allscripts. On May 28, 2007, Allscripts converted the Promissory Note into 2,317 shares of Medem's Series A Common Stock.

In connection with the Note Purchase Agreement described above, Allscripts also 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.

As of February 28, 2009, Allscripts owns 2,338 shares, or 18.7%, of Medem's Series A Voting Common Stock and 91 shares, or 1.8%, of Medem's Series B Common Stock (combined 13.9% equity ownership). Allscripts' total investment in Medem is \$2,900 under the cost basis of accounting as of February 28, 2009 and is recorded in other long-term assets on the consolidated balance sheets.

### *iMedica*

On August 23, 2007, MHS purchased 20,000 shares of iMedica Series C Preferred Stock for \$8,000, or \$0.40 per share. This investment represented approximately an 18% equity ownership in iMedica and was recorded under the cost method of accounting.

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Also on August 23, 2007, MHS entered into a strategic OEM agreement with iMedica whereby MHS licensed certain iMedica electronic health and practice management software to be marketed under the MHS' MyWay brand for an initial royalty payment of \$5,000.

On September 15, 2008, Allscripts announced that MHS and Misys had reached an agreement (the "Agreement") with iMedica and settled the previously disclosed dispute between Misys and iMedica regarding the OEM agreement. Under the terms of the Agreement, Allscripts will continue to license certain iMedica health and practice management software, marketed under the Allscripts' MyWay brand. The licenses granted under the Agreement will continue to provide Allscripts with rights to the current version of the iMedica software for Allscripts to license to, and use to support, customers. The Agreement also provides that iMedica will license to Allscripts a new version of the iMedica software source code that, from acceptance, will give Allscripts additional rights to develop future products. Each party will continue to develop their products independently and neither party will have any rights to the other party's future source code or products, nor any obligation to share any future source code or products. Once the consideration outlined below is paid there will be no further royalty payments due to iMedica.

As part of the Agreement, MHS agreed to pay iMedica a total of \$12,000 in cash contingent upon delivery by iMedica and acceptance by Allscripts of the source code and services, and to surrender Allscripts' minority equity stake in iMedica along with any outstanding prepaid royalties. Misys plc agreed to make the \$12,000 payment on MHS' behalf and \$11,000 of the obligation has been paid as of February 28, 2009. As part of the merger, Allscripts reviewed the fair market value of its investment in iMedica as of November 30, 2008 and determined that the investment was impaired. The impairment was valued by comparing the expected discounted future cash flows to be generated by the investment to its carrying value. The resulting impairment charge of \$14,076 was recorded in selling, general and administrative expenses during the nine months ended February 28, 2009. The remaining investment balance of \$10,500 is included on the balance sheet in other long term assets.

## 10. Long-Term Debt and Credit Facility

Long-term debt outstanding as of February 28, 2009 consists of the following:

	February 28, 2009
Long-term revolving Credit Facility, LIBOR plus 2.00% interest	\$47,000
3.5% Senior Convertible Notes	19,704
Total long-term debt	<u>\$66,704</u>

Interest expense for the three months ended February 28, 2009 and February 29, 2008 was \$792 and \$76, respectively, and \$168 and \$0 in debt issuance cost amortization, respectively. Interest expense for the nine months ended February 28, 2009 and February 29, 2008 was \$1,360 and \$206, respectively, and \$290 and \$0 in debt issuance cost amortization, respectively.

### *Credit Facility*

On December 31, 2007, Allscripts and its subsidiaries entered into a new credit agreement (the "Original Credit Facility") with JPMorgan Chase Bank, N.A., as sole administrative agent, which provided for a total unsecured commitment of \$60,000 and matured on January 1, 2012. On August 15, 2008, Allscripts and its subsidiaries entered into an Amended and Restated Credit Agreement (the "First Amendment to Credit Facility") with JPMorgan Chase Bank, N.A., as the sole administrative agent. The First Amendment to Credit Facility amended and restated the Original Credit Facility to provide for a total unsecured commitment of \$75,000 and matured on August 15, 2012. The First Amendment to Credit Facility was available in the form of letters of credit and revolving loans.

On February 10, 2009 Allscripts entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") among the Company, Allscripts, LLC, A4 Health Systems, Inc., A4 Realty, LLC, Extended Care Information Network, Inc. ("ECIN") and Misys Healthcare Systems, LLC, as Borrowers, and the other parties from time to time joined as additional Borrowers, JPMorgan Chase Bank, N.A., as the sole administrative agent, JPMorgan Securities, Inc., as lead arranger, and Fifth Third Bank, as syndication agent and co-lead arranger. The Credit Facility amends and restates the First Amendment to Credit Facility entered into by the Borrowers on August 15, 2008.

The Credit Facility provides for a total unsecured commitment of \$125,000, an increase of \$50,000 from the First Amendment to Credit Facility, and matures on August 15, 2012. The Credit Facility may, subject to the terms and conditions set forth therein including the receipt of additional commitments from lenders, be increased up to a maximum amount not to exceed \$150,000. The Credit Facility is available in the form of letters of credit in an aggregate amount up to \$10,000 and revolving loans. The debt issuance costs incurred with the Second Amendment have been capitalized as an other asset and is being amortized as interest expense over the term of the Credit Facility. On December 31, 2007, \$50,000 in borrowings were incurred to finance the acquisition of ECIN. The Credit Facility will initially bear interest at



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LIBOR plus 2.00% and thereafter will be based upon the Company's leverage ratio as of the last day of the most recently ended fiscal quarter or fiscal year, commencing with the date of delivery of the Company's financial statements for the fiscal quarter ending after the Closing Date, pursuant to the terms of the Credit Facility.

As of February 28, 2009, \$47,000 in borrowings and \$5 in letters of credit were outstanding under the Credit Facility. As of February 28, 2009, the interest rate on the Credit Facility was LIBOR plus 2.00%. There is no default under the Credit Facility as of February 28, 2009. The Credit Facility contains customary representations, warranties, covenants and events of default. The Credit Facility also contains certain financial covenants, including but not limited to, leverage and coverage ratios to be calculated on a quarterly basis. At February 28, 2009, management believed that Allscripts was in compliance with all covenants under the Credit Facility.

### ***Senior Convertible Debentures***

In July 2004, Allscripts completed a private placement of \$82,500 of 3.50% Senior Convertible Debentures due 2024 ("Notes"). Holders of \$54,632 principal amount of the Notes exercised their right to convert the Notes into an aggregate of 4,854 shares of Allscripts common stock by virtue of the Transactions. As a result of further actions taken by holders of the Notes in connection with the Transactions, discussed in greater detail below, there are \$19,704 of Notes outstanding as of the date of this report. The Notes can be converted, in certain circumstances, into approximately 2,451 shares of common stock based upon a conversion price of approximately \$8.04 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 \$10.45 per share; (ii) if Allscripts calls the Notes for redemption; or (iii) upon the occurrence of certain specified corporate transactions, as defined. Allscripts has the right to deliver common stock, cash or a combination of cash and shares of common stock.

On November 7, 2008, Allscripts launched an offer to purchase for cash all of the \$27,868 of Notes then outstanding at a purchase price equal to 100% of the principal amount of the Notes being repurchased (\$1,000 per each \$1,000 principal amount outstanding) plus any accrued and unpaid interest, pursuant to the terms of the indenture governing the Notes. The offer to purchase the outstanding Notes expired on December 9, 2008, with \$8,164 of the \$27,868 outstanding Notes being repurchased for cash.

Upon conversion, 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.

### ***Promissory Notes***

MHS had an unsecured \$8,000 line of credit promissory note with a national bank, which bore interest at Libor plus 0.5% and expired on October 31, 2008. The outstanding balance on the line of credit was \$3,232 as of May 31, 2008 and the line of credit was paid in full and terminated in connection with the October 10, 2008 Transactions.

Allscripts had a secured promissory note with an aggregate principal amount of \$3,400 as of October 10, 2008, maturing on October 31, 2015. The promissory note bore interest at 7.85% per annum, and principal and interest were due monthly. The promissory note was secured by the former Cary, North Carolina facilities of Allscripts and any lease or rental payments as defined in the related agreements. On August 20, 2008, Allscripts entered into an agreement to sell the Cary office building. The secured promissory note was paid in full upon closing of the sale which occurred on November 18, 2008.

## **11. Income Taxes**

On June 1, 2007, the Company adopted the provisions of FIN 48. The Company believes it has no material exposures which are not currently provided for. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48. The Company's policy for recording interest and penalties associated with tax audits is to record such items as a component of income taxes. In connection with the closing of the Transactions on October 10, 2008, the Company has unrecognized tax benefits of \$7,650 related to legacy Allscripts and also has accrued interest and penalties related to unrecognized tax benefits of approximately \$1,300 as of February 28, 2009.

The provision for income taxes reflects the Company's estimate of the effective tax rate expected to be applicable for the full fiscal year. The effective tax rate was 39.6% and 38.5% for the three months ended February 28, 2009 and February 29, 2008, respectively, and 39.5% and 38.4% for the nine months ended February 28, 2009 and February 29, 2008, respectively. The increase in the effective rate during fiscal 2009 is primarily due to a decrease in the IRC Section 199 deduction as a result of the availability of NOL carryforwards.

## 12. Business Segments

SFAS 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.

The Company currently organizes its business around groups of similar customers, which results in three reportable segments: clinical solutions, health solutions and prepackaged medications. The clinical solutions segment derives its revenue from the sale of clinical and practice management solutions and related services to physicians. Clinical solutions include electronic medical records software, practice management software, related installation and training services, electronic claims administration services and the resale of related hardware. The health solutions segment derives its revenue from the sale of clinical and practice management solutions and related services to hospital providers. Health solutions include software, related installation and training services, and the resale of related hardware. The prepackaged medications segment derives its revenue from the prepackaged medications business, including wholesale medication sales and on-site medication dispensing (see Note 14).

The Company does not track its assets by segment. The Company does not allocate interest expense or income taxes to its operating segments. In addition, the Company records corporate selling, general, and administrative expenses and amortization of intangibles in its unallocated corporate costs. These costs are not included in the evaluation of the financial performance of the operating segments.

	For the Three Months Ended February 28 and 29, respectively		For the Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
Revenue				
Clinical solutions	\$129,207	\$87,830	\$319,806	\$260,350
Health solutions	23,042	9,289	49,145	26,372
Prepackaged medications	8,454	—	13,154	—
Total revenue	<u>\$160,703</u>	<u>\$97,119</u>	<u>\$382,105</u>	<u>\$286,722</u>
Income from operations				
Clinical solutions	\$33,990	\$16,790	\$73,685	\$43,024
Health solutions	8,915	3,324	17,227	9,337
Prepackaged medications	965	—	882	—
Unallocated corporate expenses	(21,083)	(3,697)	(69,590)	(28,746)
Total income from operations	<u>22,787</u>	<u>16,417</u>	<u>22,204</u>	<u>23,615</u>
Interest expense	(960)	(76)	(1,650)	(206)
Interest income and other, net	91	19	376	52
Income from operations before income taxes	<u>\$21,918</u>	<u>\$16,360</u>	<u>\$20,930</u>	<u>\$23,461</u>

### **13. Related Parties**

#### ***Misys plc***

General corporate expenses of Misys Holdings, Inc. incurred prior to October 10, 2008, which were not directly related to legacy MHS, included certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, IT, purchasing, marketing, human resources as well as other general overhead costs. Selling, general and administrative expenses in the combined statements of operations include corporate expense allocations of \$3,534 and \$4,811 for the three months ending February 28, 2009 and February 29, 2008, respectively, and \$10,501 and \$8,431 for the nine months ending February 28, 2009 and February 29, 2008, respectively. All figures related to fiscal 2009 periods include charges under the shared services agreement described below.

#### ***Shared Services Agreement***

On March 1, 2009, Allscripts and Misys entered into a Shared Services Agreement dated as of March 1, 2009 and effective as of October 10, 2008 (the "Services Agreement"). The Services Agreement was approved by the Audit Committee of Allscripts' Board of Directors. The services being provided to Allscripts include: (1) human resource functions such as administration, selection of benefit plans and designing employee survey and training programs, (2) management services, (3) procurement services such as travel arrangements, disaster recovery and vendor management, (4) research and development services such as software development, (5) access to information technology, telephony, facilities and other related services at Misys' customer support center located in Manila, The Philippines; and (6) information system services such as planning, support and database administration. Allscripts is providing Misys with certain tax, facility space and payroll processing services. During the nine months ended February 28, 2009, Allscripts incurred \$5,032 in selling, general and administrative expenses for services provided by Misys under the Services Agreement.

As noted above, as part of the Agreement with iMedica, Misys agreed to pay the \$12,000 due to iMedica on MHS' behalf and \$11,000 of the obligation has been paid by Misys as of February 28, 2009. Please refer to the disclosure under the heading "iMedica" in Note 9 for further details.

As noted above in Note 5, Allscripts and Misys entered into the Repurchase Agreement pursuant to which Allscripts has agreed to purchase shares of its common stock from Misys. Please refer to Note 5 for further information on the Repurchase Agreement.

### **14. Subsequent Event**

#### ***Prepackaged Medications Business***

On February 10, 2009, the Company announced that it had reached an agreement in principle, subject to negotiation of and entry into a definitive agreement, to sell its medication services business. On March 9, 2009, Allscripts entered into an Asset Purchase Agreement (the "Meds Agreement") with A-S Medication Solutions LLC ("A-S"), pursuant to which Allscripts agreed to sell to A-S certain assets comprising Allscripts' Medications Services business. The sale closed on March 16, 2009.

Under terms of the Meds Agreement, Allscripts will receive a total of \$8,000 in cash consideration during its fourth quarter of fiscal 2009. In addition, Allscripts entered into a Marketing Agreement with A-S on March 16, 2009 which provides that Allscripts will earn annual fees for providing various marketing services of \$3,600 per year over the five year term for a total of approximately \$18,000. For the first year, fees are payable monthly beginning on June 30, 2009, thereafter, fees are payable on an annual basis on each anniversary date of the commencement of marketing activities under the Marketing Agreement. The Marketing Agreement contains a provision that could result in a reduction of annual fees not to exceed \$1,200 per year if a material adverse change in law, as defined, results in a significant reduction in Medications Services customer revenues related to the Meds Agreement, as defined. At the March 16, 2009 closing, Allscripts entered into a services agreement pursuant to which it agreed to provide certain transition services to A-S until December 31, 2009.

The assets and liabilities of the prepackaged medications business are included in the consolidated balance sheet as of February 28, 2009 due to the prepackaged medications business sale being completed on March 16, 2009, following the close of our fiscal third quarter. The Allscripts consolidated balance sheet as of May 31, 2008 excludes the prepackaged medications business as the business was deemed to be acquired for accounting purposes in connection with the Transactions consummated on October 10, 2008, subsequent to the close of our fiscal 2008 third quarter. The Allscripts consolidated balance sheet as of February 28, 2009 includes the prepackaged medication business and it has not been presented as assets held for sale due to the amounts being insignificant.

#### ***Stock Repurchase Program***

Subsequent to February 28, 2009 through April 9, 2009, the Company purchased approximately 1,357 of additional shares of its common stock under the open market repurchase program and has purchased or committed to purchase approximately 1,779 shares of common stock under the Repurchase Agreement with an aggregate value of approximately \$30,796.

### **15. Recent Accounting Pronouncements**

In June 2008, the Financial Accounting Standards Board issued EITF No. 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*" ("EITF 03-6-1"). EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are "participating securities" as defined in

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EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, and therefore should be included in computing earnings per share using the two-class method. According to EITF 03-6-1, a share-based payment award is a participating security when the award includes nonforfeitable rights to dividends or dividend equivalents. The EITF is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the adoption of EITF 03-6-1 on our consolidated results of operations.

In June 2008, the Financial Accounting Standards Board issued EITF Issue No. 08-4, “*Transition Guidance for Conforming Changes to Issue No. 98-5*” (“EITF No. 08-4”). The objective of EITF No. 08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, that result from EITF No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, and SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008, with early application permitted. Management is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible debt.

In May 2008, the Financial Accounting Standard Board issued FASB Staff Position (FSP) No. APB 14-1 *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (“APB 14-1”). This FSP specifies that issuers of convertible debt instruments should separately account for the liability and equity components of the instrument in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, does not grandfather existing instruments, will not permit early application and will require retrospective application to all periods presented. Management is currently in the process of quantifying the impact of the FSP on our consolidated financial position and results of operations.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (“FAS 141R”). FAS 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the fair value of identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date. FAS 141R determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting FAS 141R on our consolidated results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2010.

In December 2007, the Financial Accounting Standards Board issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (“FAS 160”), an amendment of Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (“ARB 51”). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the Parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. This pronouncement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting FAS 160 on our consolidated results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2010.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, (“FAS 159”). FAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Most of the provisions in FAS 159 are elective; however, it applies to all companies with available-for-sale and trading securities. FAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts FAS 157. We adopted FAS 159 as required at the beginning of our fiscal year 2009 and the adoption did not have a material effect on our consolidated financial statements.

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

### ***Merger Agreement***

On October 10, 2008, Allscripts-Misys Healthcare Solutions, Inc. ("Allscripts" or the "Company") completed the transactions (the "Transactions") contemplated by the Agreement and Plan of Merger dated as of March 17, 2008 by and among Misys plc, ("Misys"), Allscripts, Misys Healthcare Systems ("MHS") and Patriot Merger Company, LLC ("Patriot") which consisted of (i) the cash payment by an affiliate of Misys of approximately \$330,000 and (ii) the merger of Patriot with and into MHS, with MHS being the surviving company. As a result of the completion of the Transactions, MHS became a wholly-owned subsidiary of Allscripts and Misys obtained a controlling interest in Allscripts. In connection with the closing of the Transactions, Allscripts issued an aggregate of 82,886 shares of its common stock to two subsidiaries of Misys, which as of the closing of the Transactions, represent approximately 56.8% of the number of outstanding shares of Allscripts common stock. Management believes that the Transactions will enhance Allscripts' position in the overall healthcare information technology sector and create an industry leader in the EHR and PM markets.

### ***Basis of Presentation***

Results of operations for the three and nine months ended February 28, 2009 include the results of operations of legacy MHS for the full quarter and nine months ended February 28, 2009. The results of operations of legacy Allscripts are included for the full quarter ended February 28, 2009 and from the completion of the Transactions on October 10, 2008 through February 28, 2009 for the nine months ended February 28, 2009. Since the Transactions constitute a reverse acquisition for accounting purposes, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts. Results of operations for the three and nine months ended February 29, 2008 are the results of operations of MHS only.

### ***Overview***

Allscripts is a leading provider of clinical software, connectivity and information solutions that physicians and home healthcare providers use to improve the quality of healthcare. Our businesses provide innovative solutions that inform physicians with just right, just in time information, connect physicians to each other and to the entire community of care, and transform healthcare, improving both the quality and efficiency of care. We provide various clinical software applications, including Electronic Health Records (EHR), practice management, electronic prescribing, Emergency Department Information System (EDIS), hospital care management and document imaging solutions. We report our financial results utilizing three business segments: clinical solutions segment, health solutions segment, and the prepackaged medications segment.

The clinical solutions segment includes both our Enterprise business for large physician practices and our Professional business for smaller or independent physician practices, providing such practices with clinical and practice management software solutions and related services. Our award-winning EHR solutions are designed to enhance physician productivity using tablet PCs, wireless handheld devices or desktop workstations for the purpose of automating the most common physician activities, including prescribing, dictating, ordering lab tests and viewing results, documenting clinical encounters and capturing charges, among others. Our practice management solutions combine scheduling and financial management tools in a single package with functionality including rules-based appointment scheduling, multi-resource and recurring appointment features, referral and eligibility indicators, and appointment and claims management.

The health solutions segment provides home health providers with clinical and practice management solutions and related services and provides hospitals with emergency department, care management and discharge planning software. Health solutions include software, related installation and training services, and the resale of related hardware. The health solution provided to home health providers is an integrated system that combines business, clinical, and scheduling features into a single package, providing home health, hospice, and private duty organizations with a user friendly product that enables staff to work more effectively both inside and outside the office. The health solution also effectively manages patient care and clerical and financial functions and assists various organizations to automate virtually all of their processes, from record keeping, to scheduling, to statistical reporting. Our health solution offerings for hospitals that are seeking EDIS and care management solutions include HealthMatics ED, EmSTAT and Canopy. HealthMatics ED electronically streamlines processes for large hospital Emergency Departments, including tracking, triage,

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nurse and physician charting, disposition and reporting. EmSTAT offers similar functionality for streamlining the Emergency Department care process in small hospitals. Canopy is a Web-based solution that streamlines and speeds the patient care management process by automating utilization, case, discharge and quality management processes relating to patient hospital visits.

Our prepackaged medications segment provides point-of-care medication management and medical supply services and solutions for physicians and other healthcare providers. On March 16, 2009, Allscripts completed the sale to A-S Medication Solutions LLC (“A-S”), of certain assets comprising of our prepackaged medications business.

Cost of revenue for Allscripts’ clinical solutions segment consists primarily of salaries, bonuses and benefits of Allscripts billable professionals, third-party software costs, hardware costs, third-party transaction processing costs, amortization of proprietary technology acquired under purchase accounting, depreciation and amortization and other direct engagement costs. Cost of revenue for Allscripts’ health solutions segment consists primarily of salaries, bonuses and benefits of Allscripts billable professionals, third-party software costs, hardware costs, depreciation and amortization and other direct engagement costs. Cost of revenue for the prepackaged medications segment consists primarily of the cost of the medications, cost of salaries, bonuses and benefits for repackaging personnel, shipping costs, repackaging facility costs and other costs.

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.

Research and development expenses consist primarily of salaries, bonuses and benefits, third party contractor costs and other costs directly related to development of new products and upgrading and enhancing existing products.

Amortization of intangibles consists of amortization of customer relationships, trade names and other intangibles acquired under purchase accounting related to the Allscripts, Medic, Payerpath and Amicore acquisitions.

Interest expense consists primarily of interest on the 3.5% Senior convertible debentures, interest on capital leases and interest expense on Allscripts’ Credit Facility. Interest income and other consists primarily of interest earned on cash and marketable securities.

### ***Results of Operations***

Results of operations for the three and nine months ended February 28, 2009 include the results of operations of legacy MHS for the full quarter and nine months ended February 28, 2009. The results of operations of legacy Allscripts are included for the full quarter ended February 28, 2009 and from the completion of the Transactions on October 10, 2008 through February 28, 2009 for the nine months ended February 28, 2009. Since the Transactions constitute a reverse acquisition for accounting purposes, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts. Results of operations for the three and nine months ended February 29, 2008 are the results of operations of MHS only. As a result, revenue and operating expenses for the quarter and nine months ended February 28, 2009 increased substantially.

### ***Overview of Consolidated Results***

#### Revenue

Consolidated revenue increased 65.4%, from \$97,119 during the three months ended February 29, 2008 to \$160,703 during the same period in fiscal 2009. Consolidated revenue increased 33.3%, from \$286,722 during the nine months ended February 29, 2008 to \$382,105 during the same period in fiscal 2009. The increase in both the three and nine month periods for fiscal 2009 is primarily due to the inclusion of revenue contributed by legacy Allscripts for the full fiscal quarter and for the period from the closing of the Transactions on October 10, 2008 through February 29, 2008, respectively.

Total software and related services revenue for the three months ended February 28, 2009 increased \$55,130, or 56.8%, from \$97,119 during the three months ended February 29, 2008 to \$152,249 in the comparable period in fiscal 2009. Total software and related services revenue for the nine months ended February 28, 2009 increased \$82,229, or 28.7%, from \$286,722 during the nine months ended February 29, 2008 to \$368,951 during the same period in fiscal 2009. The revenue increase for both the three and nine month periods in fiscal 2009 is primarily due to the software and related services revenue contributed by Allscripts for the full fiscal quarter ending February 28, 2009 and for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009, respectively.

Our software and related services revenue was negatively affected during the three and nine month periods ended February 28, 2009 due to a decrease in new software orders that management believes resulted from a delay in our customers and prospective customers purchasing process due to the uncertainty around the American Recovery and Reinvestment Act of 2009 (“stimulus bill”) and also due to the current challenging economic conditions which continue to motivate customers and prospective customers to defer capital investments, conserve cash and recently has caused a trend in which our customers are moving towards software subscription arrangements versus traditional licensing that results in less upfront revenue recognition. We believe that the continuation of these challenging economic conditions and uncertainty around the stimulus bill and the related customer and prospective customer reactions may have an adverse affect on our results of operations for the remainder of fiscal 2009 and into the fiscal 2010 period.

#### Gross Margin

Consolidated gross margin for the three months ended February 28, 2009 increased \$30,898, or 59.0%, from \$52,383 for the three months ended February 29, 2008 to \$83,281 in the comparable fiscal 2009 period. Gross margin for the nine months ended February 28, 2009 increased \$44,057, or 28.2%, from \$155,981 for the nine months ended February 29, 2008 to \$200,038 in the comparable fiscal 2009 period. Consolidated gross margin as a percentage of revenue for the three and nine months ended February 28, 2009 were 51.8% and 52.4%, respectively. Consolidated gross margin as a percentage of revenue for the three and nine months ended February 29, 2008 were 53.9% and 54.4%, respectively. The increase in gross margin for both the three and nine month periods in fiscal 2009 is primarily due to the legacy Allscripts gross margin contribution which was not present in the comparable fiscal 2008

period. The decrease in gross margin as a percentage of revenue for both periods in fiscal 2009 compared to the same periods in fiscal 2008 is primarily due to the contribution of gross profit from the legacy Allscripts software and services product line, which historically tends to have lower margins than our traditional legacy MHS overall software and related services product lines.



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## Operating Income

Consolidated operating income increased 38.8%, from \$16,417 during the three months ended February 29, 2008 to \$22,787 during the same period in fiscal 2009. The increase in the three month period for fiscal 2009 is primarily due to the legacy Allscripts gross margin contribution which was not present in the comparable fiscal 2008 period, offset by an increase of \$20,607 in selling, general, and administrative expenses primarily due to legacy Allscripts, including approximately \$3,500 in deal related costs, an increase of \$2,692 in amortization of intangibles related to acquired Allscripts intangible assets, and due to an increase of approximately \$1,229 in research and development activities relating to new software products.

Consolidated operating income decreased 6.0%, from \$23,615 during the nine months ended February 29, 2008 to \$22,204 during the same period in fiscal 2009. The decrease in the nine month period for fiscal 2009 is primarily due to the legacy Allscripts gross margin contribution which was not present in the comparable fiscal 2008 period and a benefit relating to a decrease in amortization of intangibles of \$6,813, which was offset by an increase of \$51,764 in selling, general, and administrative expenses primarily due to legacy Allscripts, including approximately \$32,700 in merger, integration, and severance related costs in connection with the Transactions, and due to an increase of approximately \$517 in research and development activities.

**Segment Operations****Clinical Solutions**

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
	(Unaudited)			
Revenue:				
System sales	\$23,976	\$14,114	\$50,587	\$39,079
Professional services	13,823	6,254	29,505	18,602
Maintenance	47,924	31,455	121,000	94,018
Transaction processing and other	43,484	36,007	118,714	108,651
Total clinical solutions revenue	129,207	87,830	319,806	260,350
Total cost of revenue	63,699	42,602	156,877	124,412
Gross profit	65,508	45,228	162,929	135,938
Selling, general and administrative expenses	31,518	28,438	89,244	92,914
Income from operations	\$33,990	\$16,790	\$73,685	\$43,024

**Three and Nine Months Ended February 28, 2009 Compared to Three and Nine Months Ended February 29, 2008***Revenue*

Total clinical solutions revenue for the three months ended February 28, 2009 increased \$41,377, or 47.1%, from \$87,830 during the three months ended February 29, 2008 to \$129,207 in the comparable period in fiscal 2009. Revenue from the clinical solutions segment for the nine months ended February 28, 2009 increased \$59,456, or 22.8%, from \$260,350 during the nine months ended February 29, 2008 to \$319,806 during the same period in fiscal 2009. The revenue increase for both the three and nine month periods in fiscal 2009 is primarily due to the clinical revenue contributed by Allscripts for the full fiscal quarter ending February 28, 2009 and for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009, respectively.

Our revenue from system sales and professional services from our Enterprise and Professional businesses that make up our clinical solutions segment were negatively affected during the three and nine month periods ended February 28, 2009 due to a decrease in new software orders that management believes resulted from a delay in our customers and prospective customers purchasing process due to the uncertainty around the stimulus bill funding requirements and also due to the current challenging economic conditions which continue to motivate customers and prospective customers to defer capital investments, conserve cash and tend to move towards software subscription arrangements versus traditional licensing. This negative impact on our revenues during fiscal 2009 was partially offset by an increase in maintenance revenue from our Professional business primarily due to the continued penetration of the legacy MHS existing customer base with its Payerpath solution and an increase in maintenance revenue from our Enterprise businesses as a result of an increase in our installed customer base and due to maintenance pricing increase that became effective in January 2009.



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We believe that the continuation of these challenging economic conditions and uncertainty around the stimulus bill and the related customer and prospective customer reactions may have an adverse affect on our results of operations for the remainder of fiscal 2009 and into our fiscal 2010 period.

### *Cost of Revenue*

Gross margin for the three months ended February 28, 2009 increased \$20,280, or 44.8%, from \$45,228 for the three months ended February 29, 2008 to \$65,508 in the comparable fiscal 2009 period. Gross margin for the nine months ended February 28, 2009 increased \$26,991, or 19.9%, from \$135,938 for the nine months ended February 29, 2008 to \$162,929 in the comparable fiscal 2009 period. The increase in gross margin for both comparative periods is primarily due to the clinical margin contributed by legacy Allscripts for the full fiscal quarter ended February 28, 2009 and for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009, respectively. Gross margin as a percentage of revenue for both the three and nine month periods in fiscal 2009 and fiscal 2008 were 50.7%, 50.9% and 51.5% and 52.2%, respectively. The decreases in gross margin as a percentage of revenue for both the three and nine month periods in fiscal 2009 are primarily due to an increase in amortization cost associated with acquired technology related to the Transactions.

### *Selling, General and Administrative*

Selling, general and administrative costs for the three months ended February 28, 2009 increased \$3,080, or 10.8%, from \$28,438 during the three months ended February 29, 2008 to \$31,518 in the comparable period in fiscal 2009. Selling, general and administrative costs for the nine months ended February 28, 2009 decreased \$3,670, or 3.9%, from \$92,914 during the nine months ended February 29, 2008 to \$89,244 in the comparable period in fiscal 2009. The increase in costs for the quarter ended February 28, 2009 was primarily due to costs incurred by the legacy Allscripts business, partially offset by lower third party spending on development and due to a decline in costs in fiscal 2009 related to salary from lower headcount, lower incentive and stock compensation, lower rent and phone expenses due to cost reduction strategies implemented in 2008, and due to lower discretionary marketing and travel related spending during fiscal 2009.

The decrease in costs for the nine months ended February 28, 2009 was primarily due to a decline in costs related to salary from lower headcount, lower incentive and stock compensation, lower rent and phone expenses due to cost reduction strategies implemented in 2008 and lower discretionary marketing and travel related spending during fiscal 2009. Also contributing to the decrease was a reduction in spending on development. These decreases were partially offset by an increase in costs incurred by Allscripts during the period from the closing of the Transactions on October 10, 2008 through February 28, 2009.

### *Health Solutions*

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
	(Unaudited)			
Revenue:				
System sales	\$3,399	\$3,792	\$10,579	\$10,091
Professional services	2,105	1,150	5,611	3,836
Maintenance	8,175	4,090	18,468	11,702
Transaction processing and other	9,363	257	14,487	743
Total health solutions revenue	23,042	9,289	49,145	26,372
Total cost of revenue	7,057	2,134	14,620	6,329
Gross profit	15,985	7,155	34,525	20,043
Selling, general and administrative expenses	7,070	3,831	17,298	10,706
Income from operations	\$8,915	\$3,324	\$17,227	\$9,337

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[Table of Contents](#)*Revenue*

Total health solutions revenue for the three months ended February 28, 2009 increased \$13,753, or 148.1%, from \$9,289 during the three months ended February 29, 2008 to \$23,042 in the comparable period in fiscal 2009. Revenue from the health solutions segment for the nine months ended February 28, 2009 increased \$22,773, or 86.4%, from \$26,372 during the nine months ended February 29, 2008 to \$49,145 during the same period in fiscal 2009. The revenue increase for both the three and nine month periods in fiscal 2009 is primarily due to the health solutions revenue contributed by legacy Allscripts for the full fiscal quarter and for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009, respectively. In addition, the increase in revenue for both three and nine month periods reflects an increase in support and maintenance revenue due to growth in our home health customer base, partially offset by a decrease in software revenue and services on a year-over-year basis due to the deferral of revenue for certain customers due to contractual billing terms.

*Cost of Revenue*

Gross margin for the three months ended February 28, 2009 increased \$8,830, from \$7,155 for the three months ended February 29, 2008 to \$15,985 in the comparable fiscal 2009 period. Gross margin for the nine months ended February 28, 2009 increased \$14,482, or 72.3%, from \$20,043 for the nine months ended February 29, 2008 to \$34,525 in the comparable fiscal 2009 period. Gross margin as a percentage of revenue for both the three and nine month periods in fiscal 2009 and fiscal 2008 were 69.4%, 70.3% and 77.0% and 76.0%, respectively. The increase in gross margin for both the three and nine month periods in fiscal 2009 is primarily due to the health solutions revenue contributed by legacy Allscripts for the full fiscal quarter ended February 28, 2009 and for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009, respectively. The decrease in gross margin as a percentage of revenue for both periods is attributable to the margin mix associated with the legacy Allscripts products which tend to be lower than legacy MHS and due to an increase in amortization cost associated with acquired technology related to the Transactions.

*Selling, General and Administrative*

Selling, general and administrative costs for the three months ended February 28, 2009 increased \$3,239, or 84.5%, from \$3,831 during the three months ended February 29, 2008 to \$7,070 in the comparable period in fiscal 2009. Selling, general and administrative costs for the nine months ended February 28, 2009 increased \$6,592, or 61.6%, from \$10,706 during the nine months ended February 29, 2008 to \$17,298 in the comparable period in fiscal 2009. The increase in costs for the three and nine months ended February 28, 2009 is primarily due to costs incurred by legacy Allscripts for the full fiscal quarter and for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009, respectively, and due an overall increase in selling, general and administrative costs, primarily related to the addition of headcount to accommodate growth in the health solutions segment.

*Prepackaged Medications Segment*

	Three Months Ended February 28 and 29, respectively		Nine Months Ended February 28 and 29, respectively	
	2009	2008	2009	2008
	(Unaudited)			
Total prepackaged medications revenue	\$8,454	\$—	\$13,154	\$—
Total prepackaged medications cost of revenue	6,666	—	10,570	—
Gross profit	1,788	—	2,584	—
Selling, general and administrative expenses	823	—	1,702	—
Income from operations	\$965	\$—	\$882	\$—

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The Medications Services business was acquired in conjunction with the Transactions on October 10, 2008 and its results are included in three and nine months ended February 28, 2009. Medications services revenue was approximately \$8,454 for the three months ended February 28, 2009 and \$13,154 for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009. Gross margin and gross margin as a percentage of revenue was \$1,788 and 21.1% for the three months ended February 28, 2009 and \$2,584 and 19.6% for the nine months ended February 28, 2009. The improvement in gross margin as a percentage of revenue during the three months ended February 28, 2009 is primarily due to a medications price increase that became effective in January 2009.

Selling, general and administrative costs for the Medications Services business were approximately \$823 for the three months ended February 28, 2009 and \$1,702 for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009. The three month period ended November 30, 2008 included approximately \$400 of bad debt expense that did not reoccur during the three months ended February 28, 2009.

On March 16, 2009, Allscripts completed the sale to A-S Medication Solutions LLC (“A-S”) of certain assets comprising of our prepackaged medications business pursuant to an Asset Purchase Agreement (the “Meds Agreement”).

Under terms of the Meds Agreement, Allscripts will receive a total of \$8,000 in cash consideration during its fourth quarter of fiscal 2009. In addition, Allscripts entered into a Marketing Agreement with A-S on March 16, 2009 which provides that Allscripts will earn annual fees for providing various marketing services of \$3,600 per year over the five year term for a total of approximately \$18,000. For the first year, fees are payable monthly beginning on June 30, 2009, thereafter, fees are payable on an annual basis on each anniversary date of the commencement of marketing activities under the Marketing Agreement. The Marketing Agreement contains a provision that could result in a reduction of annual fees not to exceed \$1,200 per year if a material adverse change in law, as defined, results in a significant reduction in Medications Services customer revenues related to the Meds Agreement, as defined. At the March 16, 2009 closing, Allscripts entered into a services agreement pursuant to which it agreed to provide certain transition services to A-S until December 31, 2009.

#### *Unallocated Corporate Expenses*

Unallocated corporate expenses for the three months ended February 28, 2009 increased by \$17,386, from \$3,697 during the three months ended February 29, 2008 to \$21,083 in the comparable period in fiscal 2009. Unallocated corporate expenses for the nine months ended February 28, 2009 increased by \$40,844 from \$28,746 in the first nine months of fiscal 2008 to \$69,590 in the same period in fiscal 2009. Unallocated corporate expenses include amortization of intangible assets with the exception of the amortization of acquired technology which is included in cost of revenue. The increase in unallocated corporate expense for both the three and nine month periods in fiscal 2009 includes merger and integration related costs incurred in connection with the Transactions of approximately \$3,500 and \$32,700, respectively. Excluding these one-time related costs in fiscal 2009, unallocated corporate expenses would have been approximately \$17,583 and \$36,890 for the three and nine months ended February 28, 2009, respectively. These increases in both periods in fiscal 2009 are primarily due to corporate costs incurred related to the Transactions and the impairment charge of \$14,076 related to the investment in iMedica, partially offset by cost benefits received in fiscal 2009 for cost reduction strategies that were implemented at the end of fiscal 2008.

#### *Amortization of Intangibles*

Amortization of intangibles for the three months ended February 28, 2009 increased \$2,692, from \$180 during the three months ended February 29, 2008 to \$2,872 in the comparable period in fiscal 2009. Amortization of intangibles for the nine months ended February 28, 2009 decreased \$6,813 or 61.2%, from \$11,128 during the nine months ended February 29, 2008 to \$4,315 in the comparable period in fiscal 2009. The quarter over quarter increase is attributable to intangible amortization recorded in conjunction with the Transactions during the quarter ended February 28, 2009 which was absent in the comparable period of fiscal 2008. The intangible amortization related to the Transactions may change in the future once the final valuation is completed. The decrease in the nine month period ended February 28, 2009 is primarily due to the Medic customer relationship intangible asset becoming fully amortized during the beginning of fiscal 2009 versus a full period of amortization in the comparable period in fiscal 2008. The decrease was partially offset by the intangible amortization recorded in conjunction with the Transactions for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009.

#### *Interest Expense and Interest Income and Other, Net*

Interest expense for the three months ended February 28, 2009 increased \$884, from \$76 during the three months ended February 29, 2008 to \$960 in the comparable period in fiscal 2009. Interest expense for the nine months ended February 28, 2009 increased \$1,444, from \$206 during the three months ended February 29, 2008 to \$1,650 in the comparable period in fiscal 2009. The increase in interest expense for both the three and nine month periods ended February 28, 2009 was primarily due to interest expense related to the 3.5% senior convertible debentures as well as interest on the Credit Facility.

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On February 10, 2009 Allscripts entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") which provides for a total unsecured commitment of \$125,000, an increase of \$50,000 from the First Amendment to Credit Facility, and matures on August 15, 2012. On November 7, 2008, Allscripts launched an offer to purchase for cash all of the \$27,868 of Notes then outstanding at a purchase price equal to 100% of the principal amount of the Notes being repurchased (\$1,000 per each \$1,000 principal amount outstanding) plus any accrued and unpaid interest, pursuant to the terms of the indenture governing the Notes. The offer to purchase the outstanding Notes expired on December 9, 2008, with \$8,164 of the \$27,868 outstanding Notes being repurchased for cash during the quarter ended February 28, 2009, which resulted in a decrease in interest expense on the 3.5% Notes.

Interest income and other, net, for the three months ended February 28, 2009 increased \$72, from \$19 during the three months ended February 29, 2008 to \$91 in the comparable period in fiscal 2009. Interest income and other, net, for the nine months ended February 28, 2009 increased \$324, from \$52 during the nine months ended February 29, 2008 to \$376 in the comparable period in fiscal 2009. Interest income and other consists primarily of interest earned on Allscripts' cash and marketable securities balances. The increase in interest income and other for both the three and nine month periods in fiscal 2009 is primarily due to an increase in the cash and marketable securities balance related to the completion of the Transactions on October 10, 2008.

### *Income Tax Expense*

Allscripts recorded an income tax provision of \$8,668 and \$8,269 for the three and nine months ended February 28, 2009, respectively. Income tax expense of \$6,300 and \$9,014 was recorded for the three and nine months ended February 29, 2008, respectively. The provision for income taxes reflects Allscripts estimate of the effective tax rate expected to be applicable for the full fiscal year. The effective tax rate was 39.6% and 38.5% for the three months ended February 28, 2009 and February 29, 2008, respectively, and 39.5% and 38.4% for the nine months ended February 28, 2009 and February 29, 2008, respectively. The increase in the effective rate during fiscal 2009 is primarily due to a decrease in the IRC Section 199 deduction as a result of the availability of NOL carryforwards.

### *Stock Repurchase Program*

On February 10, 2009, the Company entered into a Stock Repurchase Agreement (the "Repurchase Agreement"), with Misys plc, Misys Patriot Ltd. ("Misys UK Holdings"), and Misys Patriot US Holdings LLC ("Misys US Holdings" and collectively with Misys plc and Misys UK Holdings "Misys"). Pursuant to the Repurchase Agreement, and during the two-year term of the Company's open market purchase program, the Company has agreed to purchase from Misys, and Misys has agreed to sell to the Company, the number of shares of the Company's common stock needed to keep Misys' ownership percentage in the Company unaffected by the open market repurchases being made by the Company. The repurchase price for any shares acquired by the Company pursuant to the Repurchase Agreement will be the weighted average purchase price paid by the Company for all other shares acquired by the Company in the open market program.

During the nine months ended February 28, 2009, the Company repurchased and cancelled 503 shares of common stock from the open market and committed to purchase approximately 660 shares of common stock from Misys to ensure Misys' ownership in Allscripts remains consistent at 56.8%. A total of 857 shares were repurchased during the nine months ended February 28, 2009. Since February 28, 2009 through April 9, 2009, the Company has purchased approximately 1,357 of additional shares of its common stock under the open market repurchase program and has purchased or committed to purchase approximately 1,779 shares of common stock under the Repurchase Agreement with an aggregate value of approximately \$30,796.

### *Liquidity and Capital Resources*

As of February 28, 2009 and May 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of \$77,464 and \$325, respectively. The increase in our cash balance is reflective of the following:

#### *Operating activities*

During the nine months ended February 28, 2009, operating activities provided \$7,188 of cash. Cash flow from operating activities reflected income generated from operations of \$48,773, after adjusting for non-cash items of \$36,112, which included depreciation and amortization, asset impairment charge, stock compensation, provision for bad debt and deferred taxes. Cash flow from operating activities after noncash items, described above, in fiscal 2009 as compared to fiscal 2008 increased by \$17,644 due to higher revenues and related cash collections in fiscal 2009 primarily resulting from the contribution of operating cash flows by legacy Allscripts.

Net changes in operating assets and liabilities contributed an adjustment of \$41,585 to reconcile net income to cash provided by operating activities. This adjustment comprises the following changes on a year-over-year basis:

- an increase in accounts receivable of \$35,883 primarily relates to increased revenue in fiscal 2009 resulting from the revenue contribution of legacy Allscripts during the period from the closing of the Transactions on October 10, 2008 through February 28, 2009 and an increase in annual maintenance billings. The increase also reflects a temporary delay in cash collections during the quarter ended February 28, 2009 as a result of the transition and integration of our billing and collections processes from our Chicago office to our Raleigh office;
- an increase in deferred revenue of \$19,300 which is primarily due to the increase in billings resulting from the contribution of legacy Allscripts during the period from the closing of the Transactions on October 10, 2008 through February 28, 2009 and due to annual maintenance billed in January 2009;

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- an increase in prepaid expenses and inventory of \$6,143 resulting from the timing of payments;
- an increase in accounts payable, accrued expenses, accrued compensation and other liabilities of \$18,859 related to timing of our contractual obligations and payments and related to legacy Allscripts operations for the period from the closing of the Transactions on October 10, 2008 through February 28, 2009.

### *Investing activities*

During the nine months ended February 28, 2009 we used \$267,552 of cash from investing activities, compared to cash used of \$8,619 in the same period in fiscal 2008. We obtained net cash acquired of \$65,728 in conjunction with the Transactions on October 10, 2008. The first nine months of fiscal 2009 also benefited from the sale of Allscripts' Cary Facility in which we received approximately \$6,450 in net proceeds. These cash inflows were offset by payments of \$329,494 for the acquisition of Allscripts, capital expenditures of \$3,461 and investments in capitalized software of approximately \$7,563.

### *Financing activities*

During the nine months ended February 28, 2009 we generated \$329,898 in cash from financing activities, compared to \$13,919 in the same period in fiscal 2008. This increase in cash is attributable to a change of \$353,500 in the parent's net investment account, which includes the \$330,000 received from Misys, cash proceeds from exercise of stock options and the employee stock purchase plan of \$1,367, cash payments for debt obligations of approximately \$18,197 made during the first nine months of fiscal 2009, which includes \$8,164 of our 3.5% Notes being repurchased for cash during the quarter ended February 28, 2009 and \$6,772 of common stock purchased under our stock repurchase program.

Allscripts' working capital increased by \$120,556 for the nine months ended February 28, 2009, from (\$6,776) at May 31, 2008 to \$113,780 at February 28, 2009. This increase is primarily due to an increase in cash and short-term marketable securities of \$74,580 and other operating assets and liabilities that were obtained in conjunction with the Transactions on October 10, 2008.

### *Sale of Prepackaged Medications Business*

On March 16, 2009, Allscripts completed the sale of certain assets comprising Allscripts' Medications Services business pursuant to the Asset Purchase Agreement (the "Meds Agreement") with A-S Medication Solutions LLC ("A-S"). Under terms of the Meds Agreement, Allscripts will receive a total of \$8,000 in cash consideration during its fourth quarter of fiscal 2009. In addition, Allscripts entered into a Marketing Agreement with A-S on March 16, 2009 which provides that Allscripts will earn annual fees for providing various marketing services of \$3,600 per year over the five-year term for a total of approximately \$18,000. The Marketing Agreement contains a provision that could result in a reduction of annual fees not to exceed \$1,200 per year if a material adverse change in law, as defined, results in a significant reduction in Medications Services customer revenues related to the Meds Agreement, as defined.

## **Future Capital Requirements**

On February 10, 2009 Allscripts entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") among the Company, Allscripts, LLC, A4 Health Systems, Inc., A4 Realty, LLC, Extended Care Information Network, Inc. ("ECIN") and Misys Healthcare Systems, LLC, as Borrowers, and the other parties from time to time joined as additional Borrowers, JPMorgan Chase Bank, N.A., as the sole administrative agent, JPMorgan Securities, Inc., as lead arranger, and Fifth Third Bank, as syndication agent and co-lead arranger. The Credit Facility amends and restates the First Amendment to Credit Facility entered into by the Borrowers on August 15, 2008. The Credit Facility provides for a total unsecured commitment of \$125,000, an increase of \$50,000 from the First Amendment to Credit Facility, and matures on August 15, 2012. The Credit Facility may, subject to the terms and conditions set forth therein including the receipt of additional commitments from lenders, be increased up to a maximum amount not to exceed \$150,000. The Credit Facility is available in the form of letters of credit in an aggregate amount up to \$10,000 and revolving loans. The Credit Facility will initially bear interest at LIBOR plus 2.00% and thereafter will be based upon the Company's leverage ratio as of the last day of the most recently ended fiscal quarter or fiscal year.

We believe that our cash, cash equivalents and marketable securities of \$77,464 as of February 28, 2009, our future cash flows from operations, proceeds from the sale of our prepackaged medications business and our borrowing capacity under our Credit Facility, taken together, provide adequate resources to fund ongoing operating cash requirements for the next twelve months, including any common stock repurchases under our open market program or the Repurchase Agreement, funding interest payments on our debt instruments, repurchases of 3.5% Notes, contractual obligations, including the Shared Services Agreement dated as of March 1, 2009 with Misys, and investment needs of our current business. We cannot provide assurance that our actual cash requirements will not be greater than we expect as of the date of this report. We will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services and technologies, which might impact our liquidity requirements or cause us to issue additional equity or debt securities.

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

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As of February 28, 2009, we had \$78,000 of available borrowings under our \$125,000 Credit Facility. There can be no assurance that we will be able to draw on the full available balance of our \$125,000 Credit Facility if the financial institution that has extended credit commitments to us becomes unwilling or unable to fund such borrowings. In the current economic environment, our ability to find a replacement for a non-funding bank is uncertain. There can also be no assurance that our Credit Facility will be renewed or replaced upon its expiration on August 15, 2012. Our ability to renew our Credit Facility or to enter into a new financing arrangement to replace the existing facility could be impaired if the current disruptions in U.S. markets continue or worsen.

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

Allscripts has 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 Allscripts' consolidated financial statements but are required to be disclosed.

In connection with the Chicago corporate facilities lease agreement, Allscripts has provided to the lessor an unconditional irrevocable letter of credit in favor of the lessor in the amount of \$500 as security for the full and prompt performance by Allscripts under the lease agreement. The letter of credit may be drawn upon by the lessor and retained, used or applied by lessor for the purpose of curing any monetary default or defaults of Allscripts under the lease. The letter of credit provides for an expiration date of one year from the commencement date of the lease, and will automatically extend for additional successive one-year periods through the term of the lease. As of February 28, 2009, no amounts had been drawn on the letter of credit.

Allscripts has a \$100 irrevocable letter of credit with a lending institution as a security deposit that is specified in Allscript's Chicago O'Hare office lease agreement. The letter of credit contains an automatic renewal provision that requires notice of non-renewal to the beneficiary no later than 60 days prior to the current expiration date. The letter of credit expires on June 30, 2009. Under the Chicago O'Hare office lease agreement, we have the right to reduce the letter of credit over time to \$75 on November 1, 2008 and to \$50 on November 1, 2009. As of February 28, 2009, no amounts had been drawn on the letter of credit.

We have other letters of credit as security for full and prompt performance under various contractual arrangements totaling \$1,715. As of February 28, 2009, a total of \$5 had been drawn on the letters of credit.

### **Recent Accounting Pronouncements**

In June 2008, the Financial Accounting Standards Board issued EITF No. 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*" ("EITF 03-6-1"). EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are "participating securities" as defined in EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, and therefore should be included in computing earnings per share using the two-class method. According to EITF 03-6-1, a share-based payment award is a participating security when the award includes nonforfeitable rights to dividends or dividend equivalents. The EITF is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the adoption of EITF 03-6-1 on our consolidated results of operations.

In June 2008, the Financial Accounting Standards Board issued EITF Issue No. 08-4, "*Transition Guidance for Conforming Changes to Issue No. 98-5*" ("EITF No. 08-4"). The objective of EITF No. 08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", that result from EITF No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments", and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008, with early application permitted. Management is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible debt.

In May 2008, the Financial Accounting Standard Board issued FASB Staff Position (FSP) No. APB 14-1 *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("APB 14-1"). This FSP specifies that issuers of convertible debt instruments should separately account for the liability and equity components of the instrument in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, does not grandfather existing instruments, will not permit early application and will require retrospective application to all periods presented. Management is currently in the process of quantifying the impact of the FSP on our consolidated financial position and results of operations.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("FAS 141R"). FAS 141R establishes principles and requirements for how the



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acquirer in a business combination recognizes and measures in its financial statements the fair value of identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date. FAS 141R determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting FAS 141R on our consolidated results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2010.

In December 2007, the Financial Accounting Standards Board issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (“FAS 160”), an amendment of Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (“ARB 51”). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the Parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. This pronouncement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting FAS 160 on our consolidated results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2010.

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, (“FAS 159”). FAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Most of the provisions in FAS 159 are elective; however, it applies to all companies with available-for-sale and trading securities. FAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts FAS 157. We adopted FAS 159 as required at the beginning of our fiscal year 2009 and the adoption did not have a material effect on our consolidated financial statements.

### **CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include all statements other than those made solely with respect to historical fact. Forward-looking statements may be identified by words such as “believes”, “expects”, “anticipates”, “estimates”, “projects”, “intends”, “should”, “seeks”, “future”, “continue”, or the negative of such terms, or other comparable terminology. Forward-looking statements are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are based on our beliefs as well as assumptions made by and information currently available to us. Such forward-looking statements are subject to numerous risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them.

Factors that could cause actual results to differ materially include, but are not limited to:

- the volume and timing of systems sales and installations, the length of sales cycles and the installation process and the possibility that products will not achieve or sustain market acceptance;
- the timing, cost and success or failure of new product and service introductions, development and product upgrade releases;
- competitive pressures including product offerings, pricing and promotional activities;
- our ability to establish and maintain strategic relationships;
- undetected errors or similar problems in our software products;
- the implementation and speed of acceptance of the electronic record provisions of the American Recovery and Reinvestment Act of 2009;
- compliance with existing laws, regulations and industry initiatives and future changes in laws or regulations in the healthcare industry, including possible regulation of the Company’s software by the U.S. Food and Drug Administration;
- the possibility of product-related liabilities;
- our ability to attract and retain qualified personnel;
- maintaining our intellectual property rights and litigation involving intellectual property rights;
- risks related to third-party suppliers and our ability to obtain, use or successfully integrate third-party licensed technology;
- the outcome of any legal proceeding that has been or may be instituted against Allscripts, Misys or MHS and others following announcement of entry into the Merger Agreement;
- risks that the Transactions disrupt current plans and operations and potential difficulties in employee retention as a result of the Transactions;

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- the ability to successfully integrate MHS into Allscripts;
- the ability to recognize the benefits of the Merger;
- legislative, regulatory and economic developments; and
- those factors discussed in “Risk Factors” in Allscripts’ periodic filings with the SEC.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Stockholders are cautioned not to place undue reliance on such statements, which speak only as of the date such statements are made.

Except to the extent required by applicable law or regulation, Allscripts undertakes no obligation to revise or update any forward-looking statement, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk (Dollars in thousands)**

As of February 28, 2009, we did not own any derivative financial instruments, but we were exposed to market risks, primarily changes in U.S. and LIBOR interest rates. Our Senior Convertible Debentures bear a fixed interest rate, and accordingly, the fair market value of the debt is sensitive to changes in interest rates. Allscripts is also exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates due to the \$47,000 loan outstanding under our Credit Facility. Based upon our balance of \$47,000 of debt against our Credit Facility as of February 28, 2009, an increase in interest rates of 1.0% would cause a corresponding increase in our annual interest expense of approximately \$470.

As of February 28, 2009, we had cash, cash equivalents and marketable securities in financial instruments of \$77,464. 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 February 28, 2009, a decrease in interest rates of 1.0% would cause a corresponding decrease in our annual interest income of approximately \$775.

### **Item 4. Controls and Procedures**

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

As of February 28, 2009, our management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are adequate and effective.

#### **Changes in Internal Control**

The following changes to the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended and nine months ended February 28, 2009, have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

On October 10, 2008, Allscripts Healthcare Solutions, Inc. (which changed its name to Allscripts-Misys Healthcare Solutions, Inc. on October 10, 2008, “Allscripts”) completed the transactions (the “Transactions”) contemplated by an Agreement and Plan of Merger dated as of March 17, 2008 by and among Misys plc, Misys Healthcare Systems, LLC (“MHS”), Allscripts and Patriot Merger Company, LLC. As a result of the Transactions, MHS became a wholly-owned subsidiary of Allscripts and Allscripts changed its fiscal year end to May 31. Since the Transactions constitute a “reverse acquisition” for accounting purposes, the pre-acquisition combined financial statements of MHS are treated as the historical financial statements of Allscripts with legacy Allscripts results being included from October 10, 2008.

The Company’s management considers the Transactions material to the Company’s results of operations, cash flows and financial position from the date of the acquisition through February 28, 2009, and believes that the internal control over financial reporting of MHS has a material effect on the Company’s internal control over financial reporting. Allscripts is in the process of combining MHS and its systems with Allscripts’ existing systems and evaluating the MHS systems. The combining of processes, including accounting processes, and systems to legacy Allscripts’ systems is expected to result in material changes to internal controls of legacy MHS and therefore, materially affect various systems and processes. Accordingly, there have been changes in the Company’s internal control over financial reporting that occurred during the quarter ended February 28, 2009 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. Prior to October 10, 2008, MHS was an operating unit of Misys Holdings, Inc., a wholly owned subsidiary of Misys plc. As an operating unit of a wholly owned subsidiary within the Misys plc group, MHS had not historically prepared financial statements for separate stand-alone purposes. Internal controls were determined to be adequate to comply with Misys plc’s internal reporting requirements under International Financial Reporting Standards.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

On September 15, 2008, Allscripts received notice that LaSalle Bank N.A., solely in its capacity as indenture trustee (“LaSalle”), filed a complaint in the Supreme Court of the State of New York, County of New York, on behalf of the holders of Allscripts’ 3.50% Convertible Senior Debentures Due 2024 seeking payment of the “Additional Shares” (as defined in the Indenture dated as of July 6, 2004 between LaSalle and Allscripts) in connection with the Transactions. On October 29, 2008, Allscripts filed a motion to dismiss the complaint. On March 30, 2009, the court granted Allscripts’ motion to dismiss in part and denied the motion in part. Allscripts believes that the complaint is without merit and will vigorously contest the claims set forth in the complaint.

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





## ISSUER PURCHASES OF EQUITY SECURITIES

(Share and dollar amounts in thousands)

The following information relates to the repurchase of equity securities by Allscripts or any affiliated purchaser during any month within the third quarter of the fiscal year covered by this report:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
12/1/08 - 12/31/08	—	\$—	—	\$—
1/1/09 - 1/31/09	—	—	—	—
2/1/09 - 2/28/09	857	9.21	857	142,106
Total	857	\$9.21	857	\$142,106

On February 10, 2009, the Company issued a press release announcing that its Board of Directors approved a stock repurchase program under which the Company may purchase up to \$150,000 of its common stock over the next two years. Repurchases may be made pursuant to Rule 10b5-1 or 10b-18 of the Securities Exchange Act of 1934, as amended. Repurchases will also be made from Misys pursuant to the Stock Repurchase Agreement, dated as of February 10, 2009 (the “Misys Repurchase Agreement”), by and among Misys plc, Misys Patriot Ltd., Misys Patriot US Holdings LLC and Allscripts. The aggregate amount of shares purchased pursuant to the repurchase plan, whether pursuant to any 10b5-1 plan, Rule 10b-18 or the Misys Repurchase Agreement, will not exceed the lesser of \$150,000 (including commissions) or 15,000 shares. Through February 28, 2009, the Company has repurchased 857 shares of common stock at an average price (excluding commissions) of \$9.21 per share for an aggregate purchase price of \$7,894, and the remaining authorized amount for stock repurchase under the program is approximately \$142,106, which program will terminate on February 10, 2011. There is no guarantee as to the exact number of shares or value thereof that will be repurchased under the stock repurchase program, and the Company may discontinue purchases at any time.

### Item 5. Other Information

Allscripts has established the AllscriptsMisys Incentive Plan 2008/2009 for the 2009 fiscal year (the “Annual Bonus Plan”). The Annual Bonus Plan is designed to motivate and reward performance that drives the achievement of the new vision and strategy for Allscripts following consummation of the Transactions. The Annual Bonus Plan is comprised of two principal elements: (i) the payment budget/funding target, which is Company operating profit, must be achieved before any payments can be made and (ii) a series of performance metrics linked to the Allscripts strategic plan which will determine how any available bonus will be calculated and paid once the minimum funding target has been met. Individual performance metrics will also be taken into account. The target bonus amounts for each of the Company’s named executive officers is 75% of base salary. The summary disclosure above is being furnished to provide information regarding certain of the terms of the Annual Bonus Plan. A copy of the Annual Bonus Plan is attached to, and is incorporated by reference into, this Form 10-Q as Exhibit 10.1. The foregoing description of the Annual Bonus Plan is qualified in its entirety by reference to the full text of the Annual Bonus Plan.

### Item 6. Exhibits

#### (a) Exhibits

See Index to Exhibits.



**INDEX TO EXHIBITS**

Exhibit 10.1	AllscriptsMisys Incentive Plan 2008/2009 (filed herewith)
Exhibit 10.2	Misys Omnibus Share Plan dated as of September 30, 2008 (filed herewith)
Exhibit 10.3	Amended and Restated Credit Agreement, dated February 10, 2009, by and among Allscripts Healthcare Solutions, Inc., Allscripts, LLC, A4 Health Systems, Inc., A4 Realty, LLC, Extended Care Information Network, Inc., Misys Healthcare Systems, LLC each as Borrower, the Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, JPMorgan Securities, Inc., as lead arranger and Fifth Third Bank, as syndication agent and co-lead arranger (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 11, 2009)
Exhibit 10.4	Stock Repurchase Agreement, dated as of February 10, 2009, by and among Misys plc, Misys Patriot Ltd., Misys Patriot US Holdings LLC and Allscripts-Misys Healthcare Solutions, Inc. (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 11, 2009)
Exhibit 10.5	Shared Services Agreement dated as of March 1, 2009 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 5, 2009)
Exhibit 31.1	Rule 13a - 14(a) Certification of Chief Executive Officer (filed herewith)
Exhibit 31.2	Rule 13a - 14(a) Certification of Chief Financial Officer (filed herewith)
Exhibit 32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer (filed herewith)

**AllscriptsMisys Incentive Plan 2008/2009**

The AllscriptsMisys Incentive Plan is designed to motivate and reward performance that drives the achievement of the new vision and strategy for Allscripts. The Plan is effective for the current fiscal year (June 1, 2008 – May 31, 2009) and supersedes and/or replaces all previous bonus plans. The level of achievement against the Allscripts operating profit target for the fiscal year will determine the overall budget for payments.

**Transition from Legacy Allscripts and Misys plans to the new AllscriptsMisys Incentive Plan**

The Misys Healthcare Systems Bonus Plan has been replaced by the AllscriptsMisys Incentive Plan. Legacy Misys employees who are currently eligible for the Misys Healthcare Systems Bonus plan will be eligible for the new AllscriptsMisys Incentive Plan for the full fiscal year and be eligible to receive 100% of their target bonus based upon the criteria outlined in this document.

Legacy Allscripts employees who are currently in the WIG/Allscripts Company Bonus Plan will be eligible for the new AllscriptsMisys Incentive Plan through the remainder of the fiscal year and are eligible to receive 75% of their target annual bonus based upon the criteria outlined in this document. The WIG/Allscripts Company Bonus Plan has been discontinued.

**Plan Summary**

For this fiscal year performance will be based upon the results of several Allscripts business objectives and your personal objectives agreed to for the financial year.

Achievement of the Allscripts operating profit target determines the potential bonus payment and a minimum threshold level of achievement of 85% of target must be achieved before any bonus is payable. The targets and corresponding levels of potential bonus payment are detailed in the table below.

Actual individual bonus payments will be calculated based upon the result of the company or business unit operating profit and business objectives results as outlined.

**Plan Structure**

The plan is comprised of two elements:

- the payment budget/funding target which must be achieved before any payments can be made. The target measure used is the Company operating profit;
- a series of performance metrics linked to the Allscripts strategic plan which will determine how any available bonus will be calculated and paid once the minimum funding target has been met.

## Payment Budget Calculation

- Allscripts operating profit must achieve a threshold of 85% of target for any payment to be made in the AllscriptsMisys Incentive Plan as shown in the table below. **The Allscripts Operating Profit (\$m) metrics in the table below have been omitted and filed separately with the Securities and Exchange Commission pursuant to a Request for Confidential Treatment.**

Allscripts Operating Profit (\$m)	Operating Profit Achievement (as a % of Allscripts Operating Profit)	Percent of Bonus Funding Achieved
*	<85%	0%
*	85%	25%
*	90%	50%
*	95%	75%
*	<b>100%</b>	<b>100%</b>
*	105%	112.5%
*	110%	125%
*	115%	137.5%
*	120%	150%
*	>120%	150%

NB. Progression between points is linear.

- Business performance is that reported for the financial year 2008/09 by AllscriptsMisys. Details of the business financial targets and progress against these during the year will be confirmed by senior management.

### Performance Metrics

Once the minimum funding has been met, bonuses will be calculated based upon results of business objectives and individual performance. Weighting for the business and individual objectives is shown on Appendix 1.

### Company Metrics

- The AllscriptsMisys Incentive Plan 08/09 uses key objectives directly taken from the Allscripts Business Strategy Scorecard to align all employees in the plan to a single set of objectives that everyone can support.
- All employees have the ability to directly impact some or all of the objectives in the plan and therefore contribute to the success of Allscripts and future bonus payments.
- Actual payments to employees will be calculated based on performance against the results of the business objectives (Company or Business Unit, if the employee is assigned to one business unit within Allscripts) as detailed in Appendix 2 and as determined by the Company in its sole discretion.

### Individual Performance Metrics

- Personal performance will be assessed by each individual's line manager and will take into account individual objectives results during the financial year including input from the Company's Performance Management Plan (PMP).
- Personal performance result will be the annual performance rating.
- Personal performance will account for 10%, 30% or 50% of your bonus, depending on organizational level/title as shown on Appendix 2.
- The target payment for individual performance will vary for different annual performance ratings with a Successful performer targeted at 100% of their individual bonus target component as shown below.
- Inconsistent rating will reduce overall bonus payment by 50%
- Unacceptable rating reduces the overall bonus to 0%
- All of the individual performance bonus payments will be subject to managers returning an overall performance distribution that is acceptable to the business during the PMP process.

Performance Rating	% of Individual Component to be Paid
Exceptional	(Min) 105% - (Target) 120%
Strong	(Min) 100% - (Target) 110%
Successful	(Min) 90% - (Target) 100%

- Note: A range is necessary as the overall bonus spend cannot exceed budget. If a desired performance distribution is achieved, then target percentages would be applied. The individual component percent would need to be revised within the range if the desired performance distribution is not achieved.

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## **Plan Rules**

### **Eligibility**

- Participation in the Plan is only available to employees who have been notified in writing by the Company of their participation under this Plan.
- To qualify for a payment, personal performance must be at a satisfactory level, as determined by the employee's manager and the Company in its sole discretion.
- Poor performance including that formally communicated via a PIP, may result in a reduced payment or no payment for the employee under this Plan.
- An employee who is subject to formal disciplinary proceedings will not be eligible for a payment under this Plan.
- Employees must be working for AllscriptsMisys as of February 28, 2009 and must still be employed on the payment date to be eligible for a payment. If an employee has been given notice of termination of employment or has resigned (or given notice of his or her intention to resign) at the time of payment, then payment may be made at the Company's sole discretion.
- Employees may join the Plan at any time during the year up to February 28, 2009.
- Transfers between Company plans can take place however in these circumstances an employee must have a minimum of 3 complete months within each plan. Where an employee has for example 10 months service in Plan 1 and 2 months in Plan 2 they would be calculated based on 12 month service in Plan 1. Where the minimum service criteria are met the bonus will be prorated for each plan to the nearest whole month.
- All transfers between Company Plans and Commission type plans will be pro rated to the nearest whole month.

### **Payment**

- No payments will be made unless the stated operating profit threshold is achieved.
- Business performance is that reported by the Company for financial year 2008/09.
- Payments will be calculated based on the employee's annual base salary (before any allowances) as of May 31, 2009. No subsequent retroactive salary adjustments will be included.
- For new hires payments will be pro-rated to reflect the number of completed months during the Plan year.
- Payments will be pro-rated for periods of extended absence in excess of 4 weeks. Extended absence includes maternity leave, parental leave, sabbaticals, long term sickness and any other period of absence if 4 weeks or more.
- Employees will be advised of any payments after the business performance has been confirmed. Payments will be made as soon as administratively feasible via normal payroll processing and will be subject to applicable taxes and withholdings.
- All payments are subject to the approval of the CEO and Board of Directors.
- The Plan is discretionary and may vary from time to time. Payments to individuals are not guaranteed, automatic nor contractual.
- AllscriptsMisys reserves the right to amend the Plan at any time, for example to reflect changes to business plans or new compensation requirements.



THE MISYS OMNIBUS SHARE PLAN

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**This Plan:-**

- **has been approved by ordinary resolution of shareholders of the Company on 30 September 2008**
- **has been established by resolution of the directors of the Company**





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**THE RULES OF  
THE MISYS OMNIBUS SHARE PLAN  
PART A: INTERPRETATION AND ADMINISTRATION**

**1. DEFINITIONS**

1.1 In this Plan the following words and expressions shall have the meanings given below:-

<b>“Acquiring Company”</b>	a company which has acquired Control of the Company
<b>“Announcement”</b>	the announcement to the London Stock Exchange of the results of the Company for any period
<b>“Associated Company”</b>	any company which, in relation to the Company, is an associated company as that term is defined in section 416 of the Taxes Act but with the omission of the words “or at any other time within one year previously”
<b>“Auditors”</b>	the auditors for the time being of the Company
<b>“Award”</b>	a right to acquire Shares subject to the terms and conditions of this Plan. An “Award” shall include an award of Performance Shares, Share Options or Matching Shares as the context admits
<b>“Award Certificate”</b>	a certificate evidencing an Award
<b>“Award Date”</b>	in relation to an Award, the date on which that Award is made
<b>“Awardholder”</b>	a person to whom an Award has been made or, if that person has died and where the context requires, his Personal Representatives
<b>“Awardholder’s Employer”</b>	such member of the Group as is the Awardholder’s employer or, if he has ceased to be employed within the Group, was his employer or such other member of the Group, or other person as, under the PAYE Regulations or, as the case may be, the N.I. Regulations, or any other statutory or regulatory enactment (whether in the United Kingdom or otherwise) is obliged to account for any Award Tax Liability
<b>“Award Shares”</b>	the Shares over which an Award subsists
<b>“Award Tax Liability”</b>	in relation to an Awardholder, any liability of the Awardholder’s Employer to account to H.M. Revenue & Customs, the United States Internal Revenue Service, or any other tax authority for any amount of, or representing, income tax, NICs or social security contributions (which shall, to the extent provided for in Rule 13, include Employer’s NICs) or any other tax charge, levy or other sum (whether under the laws of the UK, the USA or otherwise) which may arise on the grant, vesting, exercise, assignment or release of an Award or the acquisition of Shares or of any interest in Shares under this Plan

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<b>“Committee”</b>	means either: <ul style="list-style-type: none"> <li>(a) in respect of executive directors, executive vice presidents and members of the leadership group, the Remuneration Committee; or</li> <li>(b) in respect of all other Eligible Employees, the Directors or such persons to whom they delegate authority in respect of the Plan</li> </ul>
<b>“Company”</b>	Misys plc (registered in England no 1360027)
<b>“Contingent Share Award”</b>	a conditional award in respect of Shares subject to Part D
<b>“Control”</b>	has the meaning given in section 840 of the Taxes Act
<b>“Corporate Nominee”</b>	the person in whose name Shares are registered under a Corporate Nominee Facility
<b>“Corporate Nominee Facility”</b>	an arrangement sponsored by the Company under which Shares owned by an individual who is an employee or former employee of a member of the Group are held in the name of a corporate nominee on behalf of such individual
<b>“Daily Official List”</b>	the Daily Official List of the London Stock Exchange
<b>“Dealing Day”</b>	a day on which the London Stock Exchange is open for business
<b>“Deferred Shares”</b>	awards made under MSEBP in relation to part of annual bonus outcome that is deferred and will be received either in the form of cash, Shares or shares in Subsidiary that is separately listed on a stock exchange
<b>“Directors”</b>	the board of directors of the Company or a duly authorised committee of the directors
<b>“Eligible Employee”</b>	an employee of any member of the Group including an executive director of the Company
<b>“Employer’s NICs”</b>	secondary Class 1 NICs for which the Awardholder’s Employer is liable to account
<b>“Exchange of Awards”</b>	the grant, to the Awardholder, in consideration of the cancellation of an Award, of rights to acquire shares in an Acquiring Company, or a company which has Control of an Acquiring Company or either is, or has Control of, a company which is a member of a consortium owning either an Acquiring Company or a company having Control of an Acquiring Company, being rights which are:- <ul style="list-style-type: none"> <li>(a) in the opinion of the Committee, substantially equivalent in value to the value of such Award; and</li> <li>(b) on terms approved by the Directors</li> </ul>

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<b>“Exercise Price”</b>	the price per Share payable upon the exercise of a Share Option (as determined in accordance with Rule 23.4)
<b>“Form of Acceptance”</b>	in relation to an Award, a form completed by the Awardholder, under which the Awardholder notifies the Grantor of his acceptance of such Award and his agreement to be bound by the Rules of this Plan and which is in such form as the Grantor may specify when the Award is made
<b>“Grantor”</b>	in relation to an Award, the Company or such other person as has made that Award
<b>“Group”</b>	the Company and any company which is for the time being a Subsidiary
<b>“ITEPA”</b>	the Income Tax (Earnings and Pensions) Act 2003
<b>“Leaving”</b>	the Awardholder ceasing to hold office or employment within the Group or being treated to have ceased to hold such office or employment in accordance with Rule 2.6, and “Leaves” shall be construed consistently
<b>“Leaving Date”</b>	the date on which an Awardholder Leaves
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Market Value”</b>	in relation to any Share on any day, means the closing middle market quotation of a Share as derived from the Daily Official List for the Dealing Day immediately preceding that day (or such other market value as determined by the Committee in a reasonable method using quoted market prices)
<b>“Matching Shares”</b>	an award in respect of Shares that is in the form of either a Nil-Cost Option Award or a Contingent Share Award as determined by the Committee at the Award Date and which is granted to match awards of Deferred Shares made under MSEBP
<b>“Model Code”</b>	the code adopted by the Company which contains provisions similar in purpose and effect to the provisions of the Model Code on directors’ dealings in securities issued by the UK Listing Authority from time to time
<b>“MSEBP”</b>	the Misys Senior Executive Bonus Plan or such other annual bonus plan applicable to senior executives as is operated by the Company from time-to-time
<b>“NICs”</b>	in the UK, National Insurance Contributions or, in any other jurisdiction, social security contributions (or other similar taxes)
<b>“NIC Award Income”</b>	a gain realised upon the exercise of, or the acquisition of, Shares in pursuance of a Nil-Cost Option Award or a Share Option, being a gain that is treated as remuneration derived from the Awardholder’s employment by virtue of Section 4(4)(a) of the SSCBA

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<b>“Nil-Cost Option Award”</b>	a right to acquire Shares granted pursuant to and exercisable in accordance with Part C
<b>“N.I. Regulations”</b>	the laws, regulations and practices currently in force relating to liability for and the collection of NICs
<b>“Ordinary Share Capital”</b>	the issued ordinary share capital of the Company other than fixed-rate preference shares
<b>“PAYE Regulations”</b>	the regulations made under section 684 of ITEPA
<b>“Performance Condition”</b>	a condition (or conditions) relating to performance, measured over a given period, of the Company or, as appropriate, of a Subsidiary or division or of the individual Awardholder as specified pursuant to Rule 26
<b>“Performance Period”</b>	the period over which performance is to be measured for the purposes of determining whether and to what extent a Performance Condition is met
<b>“Performance Shares”</b>	an award in respect of Shares that is in the form of either a Nil-Cost Option Award or a Contingent Share Award as determined by the Committee at the Award Date
<b>“Personal Data”</b>	the name, home address and telephone number of an Awardholder, date of birth, National Insurance number or equivalent, details of all rights to acquire Shares or other securities granted to such Awardholder and of Shares or other securities issued or transferred to such Awardholder pursuant to this Plan and any other personal information which could identify the Awardholder and is necessary for the administration of this Plan
<b>“Personal Representatives”</b>	in relation to an Awardholder, the legal personal representatives of the Awardholder (being the executors of his will or, if he dies intestate, the duly appointed administrator(s) of his estate or, in either case, the equivalent under applicable local law) who have produced to the Company evidence of their appointment as such
<b>“Remuneration Committee”</b>	the Remuneration Committee of the Directors or such other committee comprising a majority of non-executive directors of the Company to which the Directors delegate responsibility for overseeing the operation of this Plan or following a change of Control of the Company, those persons who comprised the Remuneration Committee or such other committee of the Directors immediately before such change of Control;
<b>“this Plan”</b>	The Misys Omnibus Share Plan as set out in these rules and amended from time to time pursuant to Rule 34
<b>“SSCBA”</b>	The Social Security Contributions and Benefits Act 1992
<b>“Shares”</b>	fully-paid ordinary shares in the capital of the Company (or, in the event of a reorganisation or reconstruction of the Company, shares representing such ordinary shares)

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<b>“Share Option”</b>	a right to acquire Shares granted pursuant to and exercisable in accordance with Part E
<b>“Subsidiary”</b>	any company which is for the time being a subsidiary (as defined in section 736 of the Companies Act 1985) of the Company
<b>“Taxes Act”</b>	the Income and Corporation Taxes Act 1988
<b>“Trustee”</b>	the trustee or trustees of any settlement created by the Company or any other member of the Group for the benefit of employees and former employees of members of the Group
<b>“UK”</b>	United Kingdom
<b>“UK Listing Authority”</b>	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
<b>“Vesting Date”</b>	<p>means either:-</p> <ul style="list-style-type: none"> <li>(a) in respect of Performance Shares or Share Options, the third anniversary of the Award Date; or</li> <li>(b) in respect of Matching Shares:- <ul style="list-style-type: none"> <li>(i) the first anniversary of the Award Date in relation to 50% of the Award Shares; and</li> <li>(ii) the second anniversary of the Award Date in relation to a further 50% of the Award Shares</li> </ul> </li> </ul> <p>or such other date or dates as specified by the Committee at the Award Date</p>
<b>“Vesting Period”</b>	in respect of any Award Shares the period commencing on the Award Date and ending on the Vesting Date applicable to those Award Shares
<b>“Vested Shares”</b>	<p>Award Shares which an Awardholder has become entitled to acquire in consequence of:-</p> <ul style="list-style-type: none"> <li>(a) the passing of a Vesting Date and the Performance Condition relevant to that Award being met to any extent prior to that Vesting Date;</li> <li>(b) if earlier, the operation of Rules 19, 22 or 25 (Leaving); or</li> <li>(c) Award Shares being deemed to have become Vested Shares due to the application of Rules 29, 30 or 31 (Corporate Events)</li> </ul> <p><b>PROVIDED THAT</b> no Award Shares granted pursuant to a Contingent Share Award shall first become Vested</p>

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Shares at a time when the Company is in a prohibited period or a black out period pursuant to the Model Code and such Award Shares shall first become Vested Shares on such date as shall be determined by the Committee to be the earliest date on which the Company is not in such a prohibited period or a black out period.

“**Voluntary Resignation**” the Awardholder giving notice to terminate his employment in circumstances other than as set out in Schedule 1 to the Plan (*IRS approved list of circumstances similar to UK circumstances of “constructive dismissal” by the Company*)

1.2 Words and phrases not otherwise defined shall have the meanings they bear for the purposes of Part 7 of ITEPA.

## 2. **INTERPRETATION**

2.1 Any reference to any enactment includes a reference to that enactment as from time to time modified extended or re-enacted.

2.2 Words denoting the masculine gender shall include the feminine.

2.3 Words denoting the singular shall include the plural and vice versa.

2.4 No account should be taken of the Rule headings which have been inserted for ease of reference only.

2.5 References to Shares in respect of which an Award subsists at any time are to be read and construed as references to the Shares over which the Award is then held (and in respect of which it has not then lapsed).

### *Time of Leaving*

2.6 An Awardholder shall be treated for the purposes of this Plan as ceasing to hold office or employment within the Group when he no longer holds any office or employment with any member of the Group or any Associated Company, or if the Committee so determines, he shall be so treated on an earlier date when he gives or receives notice to terminate his office or employment with any member of the Group or any Associated Company, or is dismissed without notice (including by way of summary dismissal) from any such office or employment.

### *Resolution of disputes*

2.7 If any question, dispute or disagreement arises as to the interpretation of this Plan or of any rules, regulations or procedures relating to it or as to any question or right arising from or related to this Plan, the decision of the Committee shall (except as regards any matter required to be determined by the Auditors) be final and binding upon all persons.

## 3. **ADMINISTRATION**

3.1 The Remuneration Committee shall be responsible for setting the overall policy and principles relating to this Plan.

3.2 The Directors may from time to time make and vary such rules and regulations not inconsistent with the Rules of this Plan and establish such procedures for its administration and implementation as they think fit.

3.3 In any matter in which they are required to act in connection with this Plan, the Auditors shall be deemed to be acting as experts and not as arbitrators and the Arbitration Act 1996 shall not apply.

3.4 The Company shall bear the costs of the administration and implementation of this Plan.



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#### 4. **RIGHTS ATTACHING TO SHARES**

- 4.1 The issue or transfer of any Shares under or for the purposes of this Plan shall be subject to the Company's Memorandum and Articles of Association, to any necessary consents of any governmental or other authorities (whether in the UK or otherwise) under any enactments or regulations from time to time in force and to any restrictions on re-sales of Shares pursuant to applicable securities laws or other laws.
- 4.2 The Awardholder shall comply with any requirements to be fulfilled in order to obtain or obviate the necessity of any such consent.
- 4.3 All Shares issued or transferred under this Plan shall rank equally in all respects with the Shares then in issue, except for any rights attaching to such Shares by reference to a record date prior to the date of such allotment or transfer.

#### **PART B: MAKING OF AWARDS**

##### 5. **ELIGIBILITY**

- 5.1 An Award may only be made to an Eligible Employee.
- 5.2 An Award of Matching Shares may only be made to an Eligible Employee who has participated in MSEBP for the preceding financial year of the Company and been awarded a bonus, part of which is in the form of an award of Deferred Shares.
- 5.3 An Award shall not be made by any person other than the Company without the prior approval of the Committee.

##### 6. **MAKING OF AWARDS**

- 6.1 An Award shall be in the form of either:-
- 6.1.1 Performance Shares;
  - 6.1.2 Share Options; or
  - 6.1.3 Matching Shares.
- 6.2 Performance Shares or Matching Shares may be granted as either a Nil-Cost Option Award or a Contingent Share Award.
- 6.3 Awards shall be made by the Grantor executing a deed.
- 6.4 When an Award is made, the following shall be specified:-
- 6.4.1 the number of Award Shares granted either as Performance Shares, Share Options or Matching Shares;
  - 6.4.2 the Performance Condition applicable to that Award (or where the Award is an Award of Matching Shares, the Performance Condition applicable to that part of the Award capable vesting at the first anniversary of the Award Date); and
  - 6.4.3 the Vesting Date(s) applicable to that Award.

##### 7. **TIMING OF AWARDS**

- 7.1 An Award may only be made in the following periods:-
- 7.1.1 within 42 days beginning with approval of the Plan by the Company's shareholders;
  - 7.1.2 within 42 days beginning with the Dealing Day following an Announcement;

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7.1.3 within 28 days immediately after the person to whom the Award is made first becomes an Eligible Employee; or

7.1.4 subject to the Model Code, at any other time but only if, in the opinion of the Committee, the circumstances are exceptional.

7.2 If the Grantor is restricted by statute, order or regulation (including any regulation, order or requirement imposed on the Company by the London Stock Exchange or any other regulatory authority) from making an Award within the period as mentioned in Rule 7.1 the Grantor may make an Award within the period of 42 days after all such restrictions are removed.

7.3 No Award may be made in breach of the Model Code.

7.4 No Award may be made after 30 September 2018.

## 8. **INDIVIDUAL LIMITS – PERFORMANCE SHARES AND SHARE OPTIONS**

8.1 Subject to Rules 8.2 to 8.4 below, the aggregate value of Shares in respect of which Awards of Performance Shares may be made to an Eligible Employee in any financial year of the Company shall not be greater than 150 per cent of the Eligible Employee's base salary.

8.2 In any financial year of the Company in which an Eligible Employee receives a grant of both Share Options and Performance Shares, the combined value of such grants will not exceed the maximum limit for Performance Shares as set out in Rule 8.1 above **PROVIDED THAT** for the purposes of this Rule 8.2 only, the Remuneration Committee may apply such reasonable ratio as it may choose to equate a number of Share Options to one Performance Share.

8.3 In any financial year of the Company in which an Eligible Employee receives a grant of only Share Options, the value of such grant will not exceed the maximum limit for Performance Shares as set out in Rule 8.1 above but the value of the Share Options will be determined on the basis described in the proviso to Rule 8.2 above.

8.4 The Remuneration Committee may in exceptional circumstances make Awards in any financial year of the Company beyond the limits stated in Rules 8.1 to 8.3 above **PROVIDED THAT** the above limits will apply on the basis of the maximum award of Performance Shares being 250 per cent of the Eligible Employee's base salary.

8.5 For the purposes of this Rule 8 only, the "value" of Shares may be calculated using the Market Value of Shares at either the Award Date or the date on which an individual commences employment and becomes an Eligible Employee.

## 9. **INDIVIDUAL LIMITS – MATCHING SHARES**

9.1 The aggregate number of Shares in respect of which an Award of Matching Shares may be made to an Eligible Employee in any financial year of the Company shall not exceed such number of Shares as has a value equivalent to the value of an award of Deferred Shares made to the Eligible Employee under MSEBP in respect of the Eligible Employee's annual bonus for the preceding financial year.

9.2 For the purposes of this Rule 9 only:-

9.2.1 the "value" of an award of Deferred Shares will be the Eligible Employee's equivalent cash amount under MSEBP that is awarded under MSEBP as Deferred Shares;

9.2.2 the "value" of Shares will be the Market Value of Shares at the Award Date.

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10. **AWARD CERTIFICATE**

- 10.1 As soon as practicable after an Award has been made the Company shall procure the issue to the Awardholder of an Award Certificate (which may be by e-mail) which specifies:-
- 10.1.1 whether the Award is granted as an Award of Performance Shares, Share Options or Matching Shares;
  - 10.1.2 whether an Award of Performance Shares or Matching Shares is granted as a Nil-Cost Option Award or a Contingent Share Award;
  - 10.1.3 the Grantor;
  - 10.1.4 the Award Date;
  - 10.1.5 the number of Award Shares;
  - 10.1.6 the Performance Condition set pursuant to Rule 26.1;
  - 10.1.7 in respect of Share Options, the Exercise Price;
  - 10.1.8 the Vesting Date(s) applicable to that Award; and
  - 10.1.9 that it is a condition of the Award that the Awardholder agrees to indemnify the Grantor and the Awardholder's Employer in respect of any Award Tax Liability.
- 10.2 An Award Certificate in respect of Matching Shares may also contain information in relation to related awards of Deferred Shares made under MSEBP.

11. **ACCEPTANCE OF AN AWARD**

- 11.1 The provisions of Rule 11.2 shall only apply in relation to an Award if the Grantor determines that the Awardholder will be required to accept his Award.
- 11.2 If the Awardholder does not, within 30 days after the Award Date (or such later time as the Grantor may notify to the Awardholder), deliver to the Grantor a duly completed Form of Acceptance in relation to such Award, then at the end of that period:-
- 11.2.1 if the Award is a Nil-Cost Option Award or a Share Option, it shall lapse and cease to be exercisable; and
  - 11.2.2 if the Award is a Contingent Share Award, the Awardholder shall not be able to receive any Shares pursuant to that Award.

12. **TAX INDEMNITY**

It shall be a term and condition of every Award that the Awardholder indemnifies the Grantor and the Awardholder's Employer against any Award Tax Liability.

13. **TRANSFER OF BURDEN OF EMPLOYER'S NICs**

- 13.1 Where the Grantor specifies at the Award Date, it shall be a term and condition of every Award that the Awardholder shall, if and when required by the Grantor, agree with and undertake to the Company and, if different, the Awardholder's Employer that:-
- 13.1.1 the Awardholder's Employer may (if or insofar as it is lawful to do so) recover from the Awardholder, the whole or any part of any Employer's NICs payable in respect of any NIC Award Income; and, if required to do so
  - 13.1.2 the Awardholder shall enter into a joint election with the Awardholder's Employer (in a form approved by H.M. Revenue & Customs under paragraph 3B of Schedule 1 to the SSCBA) for the transfer to the Awardholder of the whole, or such part as the Company may determine, of any liability of the Awardholder's Employer to Employer's NICs on any NIC Award Income.

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## 14. DATA PROTECTION

- 14.1 It shall be a term and condition of every Award that an Awardholder agrees and consents to:-
- 14.1.1 the collection, use, processing and transfer of his Personal Data by any member of the Group or any Associated Company and, if it is not the Company, the Grantor and any third party trustee or administrator of the Plan and any broker through whom Shares are to be sold on behalf of an Awardholder;
  - 14.1.2 members of the Group, any Associated Company and, if it is not the Company, the Grantor, and any third party trustee or administrator of the Plan and any broker through whom Shares are to be sold on behalf of an Awardholder transferring the Awardholder's Personal Data amongst themselves for the purposes of implementing, administering and managing this Plan and the grant of Awards and the acquisition of Shares pursuant to Awards;
  - 14.1.3 the use of Personal Data by any such person for any such purposes; and
  - 14.1.4 the transfer to and retention of Personal Data by third parties including any third party trustee or administrator of the Plan (whether or not any such third party is situated outside the European Economic Area) for or in connection with such purposes.

## 15. RELATIONSHIP WITH CONTRACT OF EMPLOYMENT

- 15.1 The making of an Award shall not form part of the Awardholder's entitlement to remuneration or benefits pursuant to his contract of employment.
- 15.2 The existence of a contract of employment between any person and the Company or any present or past Subsidiary or Associated Company, does not give such person any right or entitlement to have an Award made to him in respect of any number of Shares or any expectation that an Award might be made to him, whether subject to any conditions or at all.
- 15.3 Neither the existence of this Plan nor the fact that an individual has on any occasion been granted an Award shall give such individual any right, entitlement or expectation that he has or will in future have any such right, entitlement or expectation to participate in this Plan by being granted an Award on any other occasion.
- 15.4 The rights and obligations of an Awardholder under the terms of his contract of employment with the Company or any present or past Subsidiary or Associated Company shall not be affected by the making of an Award or his participation in this Plan.
- 15.5 The rights or opportunity granted to an Awardholder on the making of an Award shall not give the Awardholder any rights or additional rights to compensation or damages either in consequence of the loss or termination of his office or employment with the Company or any present or past Subsidiary or Associated Company for any reason whatsoever, or in consequence of the Awardholder giving or receiving notice to terminate his office or employment with the Company or any past or present Subsidiary or Associated Company for any reason whatsoever (whether or not the termination (and/or the giving or receiving of notice of termination) is ultimately held to be wrongful or unfair).
- 15.6 An Awardholder shall not be entitled to any compensation or damages for any loss or potential loss which he may suffer by reason of being unable to acquire or retain Shares, or any interest in Shares pursuant to an Award either in consequence of the loss or termination of his office or employment with the Company or any present or past Subsidiary or Associated Company for any reason whatsoever, or in consequence of the Awardholder giving or receiving notice to terminate his office or employment with the Company or any past or present Subsidiary or Associated Company for any reason whatsoever (whether or not the termination (and/or the giving or receiving of notice of termination) is ultimately held to be wrongful or unfair).
- 15.7 The making of an Award on any occasion is at the discretion of the Committee. No entitlement to the grant of an Award and/or the issue or transfer of Shares in the future shall thereby be created on the grounds that such Awards were granted in the past nor on the grounds that Awards may previously have been granted over a particular number of Shares. Even the repeated grant of Awards and/or the issue or transfer of Shares shall not create future entitlements to receive Awards and/or Shares at all, or to be granted Awards over a specific number of Shares.

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16. **NON-TRANSFERABILITY OF AWARDS**

16.1 An Award is personal to an Awardholder and may not be transferred during his lifetime.

16.2 If an Awardholder:-

16.2.1 transfers or assigns, mortgages, charges or otherwise disposes of an Award or of any interest in or right to acquire any Award Shares (other than to his Personal Representatives); or

16.2.2 is adjudged bankrupt or an interim order is made because he intends to propose a voluntary arrangement to his creditors under the Insolvency Act 1986 (or any other provision of the laws of any jurisdiction outside the UK which is intended to have similar effect or purpose); or

16.2.3 makes or proposes any other plan or arrangement, in relation to his debts, with his creditors or any section of them; or

16.2.4 is otherwise deprived (except on death) of the legal or beneficial ownership of an Award or of any interest in or right to acquire any Award Shares, whether by operation of law or by doing or omitting to do anything which causes him to be so deprived

the Awardholder shall immediately cease to have any right or entitlement to any Award Shares which have not then become Vested Shares.

**PART C: NIL-COST OPTION AWARDS**

17. **STRUCTURE OF A NIL-COST OPTION AWARD**

17.1 The Grantor (acting with the consent of the Committee) may from time to time grant to any Eligible Employee a Nil-Cost Option Award, being a right that is an option to acquire such maximum number of Shares as the Grantor shall specify and which is exercisable only subject to and in accordance with the terms of Part C of this Plan.

17.2 The exercise of a Nil-Cost Option Award shall be subject to a Performance Condition.

17.3 No amount shall be payable by the Awardholder for the acquisition of Shares pursuant to a Nil-Cost Option Award.

17.4 An Eligible Employee who is subject to US Federal Income Tax may not be granted a Nil-Cost Option Award and any purported grant of a Nil-Cost Option Award to such an Eligible Employee shall take effect as a Contingent Share Award in accordance with Part D of this Plan.

18. **EXERCISE OF A NIL-COST OPTION AWARD**

18.1 A Nil-Cost Option Award:-

18.1.1 may only ever be exercised in respect of Vested Shares; and

18.1.2 may not be exercised after the tenth anniversary of the Award Date, or such earlier date as may be specified at the Award Date.

18.2 Except as otherwise provided in Rule 19 and Part H, a Nil-Cost Option Award may not be exercised at any time unless the Awardholder then holds office or employment with a member of the Group.

*Exercise procedure*

18.3 A Nil-Cost Option Award shall be exercised only by the Awardholder serving a notice on the Grantor (or otherwise as the Grantor may direct) which specifies the number of Shares in respect of which such Nil-Cost Option Award is exercised on that occasion which shall not exceed the number of Vested Shares in respect of which such Nil-Cost Option Award subsists and which have not been specified for this purpose in an earlier notice of exercise.

18.4 A Nil-Cost Option Award shall not be exercised on any occasion if such exercise would not be in accordance with the Model Code.

*Issue or Transfer of Shares*

18.5 Subject to Rule 18.4 and Rule 27, within 30 days after the Grantor receives a notice of exercise pursuant to Rule 18.3, the Grantor shall issue or transfer or procure the issue or transfer to or to the order of the Awardholder of the Shares in respect of which the Nil-Cost Option Award is duly exercised on that occasion.

*Transfer to a nominee*

18.6 If the Awardholder requests, some or all of the Shares he acquires on the exercise of a Nil-Cost Option Award may be issued or transferred to a nominee account in the name of the Awardholder, provided that beneficial ownership of the Shares vests in the Awardholder.

**19. NIL-COST OPTION AWARDS - CESSATION OF EMPLOYMENT**

*Death, injury, disability etc*

19.1 If an Awardholder Leaves for any reason, his Nil-Cost Option Award shall lapse in accordance with Rule 19.2 unless the reason for Leaving is:-

19.1.1 death;

19.1.2 injury or disability (evidenced to the satisfaction of the Committee);

19.1.3 dismissal by reason of redundancy (within the meaning of the Employment Rights Act 1996);

19.1.4 the fact that the office or employment by virtue of which he is eligible to participate in this Plan relates to a business or part of a business which is transferred to a person or company which is not a member of the Group;

19.1.5 the fact that the company with which he holds the office or employment by virtue of which he is eligible to participate in this Plan is no longer a member of the Group; or

19.1.6 any other circumstances at the discretion of the Committee

in which case the Awardholder (or, if he has died, his Personal Representatives) may (subject to Rule 19.6 below) exercise a Nil-Cost Option Award granted to him in accordance with Rules 19.3 to 19.5 below.

*Leaving for other reasons*

19.2 Where an Awardholder Leaves for reasons other than those set out in Rules 19.1.1 to 19.1.6 above, his Nil-Cost Option Award shall lapse and he shall cease to have any right or entitlement to any Award Shares.

*Vesting after Leaving*

19.3 Where an Awardholder who holds a Nil-Cost Option Award Leaves in any of the circumstances specified at Rules 19.1.1 to 19.1.6 above before the end of the Vesting Period relevant to the Award Shares, the Awardholder may (subject to Rule 19.4 below) exercise that Award either:-

19.3.1 within the period of 12 months after the Vesting Date relevant to the Award Shares but only in respect of a proportion (corresponding to such proportion of the Vesting Period relevant to the Award Shares as fell before the Leaving Date) of the Award Shares which become Vested Shares in consequence of the Performance Condition being satisfied; or

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19.3.2 if the Committee so determines and notifies the Awardholder within 3 months after the Awardholder Leaves, within the period of 12 months beginning with the Leaving Date, but only in respect of a proportion, (corresponding to such proportion of the Vesting Period relevant to the Award Shares as fell before the Leaving Date), of such of the Award Shares which are then deemed to be Vested Shares in consequence of the Committee making a determination pursuant to Rule 26.6 (*Deemed Vesting on Leaving*).

19.4 The Committee may (if it so determines in its absolute discretion) permit the Awardholder to exercise a Nil-Cost Option Award in respect of a proportion of the Award Shares which is different to the proportion of Award Shares determined by the application of either Rules 19.3.1 to 19.3.2 (as appropriate) if the Committee determines that the vesting outcome achieved under the relevant rule does not reflect the underlying financial performance of the Company.

19.5 Where an Awardholder who holds a Nil-Cost Option Award Leaves in any of the circumstances specified in Rule 19.1.1 to 19.1.6 above after the end of the Vesting Period relevant to the Award Shares, such Nil-Cost Option Award may be exercised, within the period of 12 months beginning with the Leaving Date, in respect of Award Shares which, immediately before the Leaving Date, were Vested Shares.

*Forfeiture of MSEBP Deferred Shares*

19.6 In relation to an Award of Matching Shares, where the Awardholder Leaves and pursuant to MSEBP he loses entitlements to receive some or all of the Deferred Shares in respect of which the Matching Shares were granted, his Matching Shares will lapse in respect of a number of Award Shares that corresponds to the proportion of the Deferred Shares which have been forfeited.

**PART D: CONTINGENT SHARE AWARDS**

**20. CONTINGENT SHARE AWARDS**

20.1 The Grantor (acting with the consent of the Committee) may from time to time grant an Eligible Employee a Contingent Share Award that is subject to the terms of Part D of this Plan.

20.2 Where Shares subject to a Contingent Share Award become Vested Shares, the Grantor will issue or transfer, or procure the issue or transfer of, such Vested Shares to the Awardholder in accordance with this Part D.

20.3 Entitlement to an issue or transfer of Shares pursuant to a Contingent Share Award shall be subject to a Performance Condition.

20.4 No amount shall be payable by the Awardholder for the acquisition of Shares pursuant to a Contingent Share Award.

**21. SATISFACTION OF CONTINGENT SHARE AWARDS**

21.1 Subject to Rule 21.3, Rule 21.4 and Rule 27, as soon as practicable after a Vesting Date the Grantor shall issue or transfer or procure the issue or transfer of Vested Shares to or to the order of the Awardholder, and if the Awardholder so requests, some or all of the Shares he acquires may be issued or transferred to a nominee account in the name of the Awardholder, provided the beneficial ownership of the Shares vests in the Awardholder.

21.2 Except as provided in Rule 22 and Part H, an Awardholder shall have no right or entitlement to Award Shares unless the Awardholder then holds office or employment with a member of the Group.

*Effect of Restrictions upon Issue or Transfer of Vested Shares*

21.3 If on any occasion the issue or transfer of any Vested Shares is restricted by reason of the Model Code such Shares shall be issued or transferred as soon as practicable after all such restrictions have been lifted.

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*US Federal Income Tax*

- 21.4 Any issue or transfer of Vested Shares pursuant to a Contingent Share Award that has been granted to an Awardholder who is subject to US Federal Income tax shall in all circumstances be made no later than 2.5 months following the later of the end of the Company's financial year or the end of the calendar year in which the Award Shares first become Vested Shares.

**22. CONTINGENT SHARE AWARDS – CESSATION OF EMPLOYMENT**

*Death, injury, disability, etc*

- 22.1 If an Awardholder Leaves for any reason, his Contingent Share Award shall lapse in accordance with Rule 22.2 unless the reason for Leaving is:-

- 22.1.1 death;
- 22.1.2 injury or disability (evidenced to the satisfaction of the Committee);
- 22.1.3 dismissal by reason of redundancy (within the meaning of the Employment Rights Act 1996);
- 22.1.4 the fact that the office or employment by virtue of which he is eligible to participate in this Plan relates to a business or part of a business which is transferred to a person or company which is not a member of the Group;
- 22.1.5 the fact that the company with which he holds the office or employment by virtue of which he is eligible to participate in this Plan is no longer a member of the Group; or
- 22.1.6 any other circumstances at the discretion of the Committee

in which case the Grantor shall (subject to Rule 22.6 below) as soon as practicable after the Leaving Date issue or transfer, or procure the issue or transfer to the Awardholder (or, if he has died, his Personal Representatives) of Award Shares in accordance with Rules 22.3 to 22.5 below.

**PROVIDED THAT** for an Awardholder who is subject to US Federal Income Tax, the Committee may not use its discretion at Rule 22.1.6 above if the reason for the Awardholder Leaving is Voluntary Resignation.

*Leaving for other reasons*

- 22.2 Where an Awardholder Leaves for reasons other than those set out in Rules 22.1.1 to 22.1.6 above, his Award shall lapse and he shall cease to have any right or entitlement to any Award Shares.

*Vesting after Leaving*

- 22.3 Where an Awardholder who holds a Contingent Share Award Leaves in any of the circumstances specified at Rules 22.1.1, to 22.1.6 above before the end of the Vesting Period relevant to the Award Shares, the Grantor may (subject to Rule 21.4 above and Rule 22.4 below) either:-

- 22.3.1 as soon as reasonably practicable after the Vesting Date relevant to the Award Shares, issue or transfer or procure the issue or transfer to, or to the order of, the Awardholder of a proportion (corresponding to such proportion of the Vesting Period relevant to the Award Shares as fell before the Leaving Date) of the Award Shares which become Vested Award Shares in consequence of the Performance Condition being satisfied; or
- 22.3.2 if the Committee so determines, as soon as reasonably practicable after the Leaving Date, issue or transfer or procure the issue or transfer to, or to the order of, the Awardholder of a proportion (corresponding to such proportion of the Vesting Period relevant to the Award Shares as fell before the Leaving Date) of such of the Award Shares which are then deemed to be Vested Shares in consequence of the Committee making a determination pursuant to Rule 26.6 (*Deemed Vesting on Leaving*)



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22.4 The Committee may (if it so determines in its absolute discretion) issue or transfer to or procure the issue or transfer to the Awardholder of a proportion of the Award Shares which is different to the proportion of Award Shares determined by the application of Rules 22.3.1 and 22.3.2 (as appropriate) if the Committee determines that the vesting outcome achieved under the relevant rule does not reflect the underlying financial performance of the Company.

22.5 Where an Awardholder Leaves after the end of the Vesting Period applicable to an Award in any of the circumstances specified in Rules 22.1.1, to 22.1.6 above, the Grantor shall as soon as reasonably practicable after the Leaving Date, issue or transfer or procure the issue or transfer to, or to the order of, the Awardholder of such of the Award Shares as, immediately before the Leaving Date, were Vested Shares.

*Forfeiture of MSEBP Deferred Shares*

22.6 In relation to an Award of Matching Shares, where the Awardholder Leaves and pursuant to MSEBP he loses entitlements to receive some or all of the Deferred Shares in respect of which the Matching Shares were granted, his Matching Shares will lapse in respect of a number of Award Shares that corresponds to the proportion of the Deferred Shares which have been forfeited.

**PART E: SHARE OPTIONS**

**23. STRUCTURE OF A SHARE OPTION**

23.1 The Grantor (acting with the consent of the Committee) may from time to time grant to any Eligible Employee a Share Option, being a right that is an option to acquire such maximum number of Shares as the Grantor shall specify and which is exercisable only subject to and in accordance with the terms of Part E of this Plan.

23.2 The exercise of a Share Option shall be subject to a Performance Condition.

23.3 Subject to Rule 24.6, in relation to each Share to be acquired pursuant to a Share Option, the Awardholder must pay the Exercise Price.

23.4 The Exercise Price shall be the Market Value of a Share as at the Award Date.

**24. EXERCISE OF A SHARE OPTION**

24.1 A Share Option:-

24.1.1 may only ever be exercised in respect of Vested Shares; and

24.1.2 may not be exercised after the tenth anniversary of the Award Date, or such earlier date as may be specified at the Award Date.

24.2 Except as otherwise provided in Rule 25 and Part H, a Share Option may not be exercised at any time unless the Awardholder then holds office or employment with a member of the Group.

*Exercise procedure*

24.3 A Share Option shall be exercised only by the Awardholder serving a notice on the Grantor (or otherwise as the Grantor may direct) which:-

24.3.1 specifies the number of Shares in respect of which such Share Option is exercised on that occasion which shall not exceed the number of Vested Shares in respect of which such Share Option subsists and which have not been specified for this purpose in an earlier notice of exercise; and

24.3.2 subject to Rule 24.6, is accompanied by payment of the Exercise Price for that number of Shares (in such form and manner as determined by the Grantor).

24.4 A Share Option shall not be exercised on any occasion if such exercise would not be in accordance with the Model Code.

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*Issue or Transfer of Shares*

- 24.5 Subject to Rule 24.4, Rule 24.6 and Rule 27, within 30 days after the Grantor receives a notice of exercise pursuant to Rule 24.3, the Grantor shall issue or transfer or procure the issue or transfer to or to the order of the Awardholder of the Shares in respect of which the Share Option is duly exercised on that occasion.
- 24.6 Subject to Rule 24.4 and Rule 27, when a Share Option is exercised, the Grantor shall have the right to issue or transfer to the Awardholder, or procure the issue or transfer to the Awardholder, of a number of Shares (X) determined as:-

$$X = \frac{Y \times (CMV - EP)}{CMV}$$

where:- CMV is the market value of a Share (determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992) on the date on which the Awardholder exercises his Share Option

EP is the Exercise Price per Share payable upon the exercise of a Share Option

Y is the number of Shares in respect of which the Share Option is exercised on that occasion

and if on any occasion the Grantor wishes to exercise this right it shall:-

- (a) return to the Awardholder the amount paid as mentioned in Rule 24.3.2; and
- (b) issue or transfer or procure the issue or transfer of such number of Shares within the period of 30 days beginning with the date on which the Grantor received the notice of exercise on that occasion

and the Awardholder shall accept such issue or transfer in full satisfaction of the Awardholder's right to acquire shares in consequence of the exercise of the Share Option on that occasion.

*Transfer to a nominee*

- 24.7 If the Awardholder requests, some or all of the Shares he acquires on the exercise of a Share Option may be issued or transferred to a nominee account in the name of the Awardholder, provided that beneficial ownership of the Shares vests in the Awardholder.

**25. SHARE OPTIONS - CESSATION OF EMPLOYMENT**

*Death, injury, disability etc*

- 25.1 If an Awardholder Leaves for any reason, his Share Option shall lapse in accordance with Rule 25.2 unless the reason for Leaving is:-

25.1.1 death;

25.1.2 injury or disability (evidenced to the satisfaction of the Committee);

25.1.3 dismissal by reason of redundancy (within the meaning of the Employment Rights Act 1996);

25.1.4 the fact that the office or employment by virtue of which he is eligible to participate in this Plan relates to a business or part of a business which is transferred to a person or company which is not a member of the Group;

25.1.5 the fact that the company with which he holds the office or employment by virtue of which he is eligible to participate in this Plan is no longer a member of the Group; or

25.1.6 any other circumstances at the discretion of the Committee

in which case the Awardholder (or, if he has died, his Personal Representatives) may exercise a Share Option granted to him in accordance with Rules 25.3 to 25.5 below.

*Leaving for other reasons*

25.2 Where an Awardholder Leaves for reasons other than those set out in Rules 25.1.1 to 25.1.6 above, his Share Option shall lapse and he shall cease to have any right or entitlement to any Award Shares.

*Vesting after Leaving*

25.3 Where an Awardholder who holds a Share Option Leaves in any of the circumstances specified at Rules 25.1.1 to 25.1.6 above before the end of the Vesting Period relevant to the Award Shares, the Awardholder may (subject to Rule 25.4 below) exercise that Award either:-

25.3.1 within the period of 12 months after the Vesting Date relevant to the Award Shares but only in respect of a proportion (corresponding to such proportion of the Vesting Period relevant to the Award Shares as fell before the Leaving Date) of the Award Shares which become Vested Shares in consequence of the Performance Condition being satisfied; or

25.3.2 if the Committee so determines and notifies the Awardholder within 3 months after the Awardholder Leaves, within the period of 12 months beginning with the Leaving Date, but only in respect of a proportion, (corresponding to such proportion of the Vesting Period relevant to the Award Shares as fell before the Leaving Date), of such of the Award Shares which are then deemed to be Vested Shares in consequence of the Committee making a determination pursuant to Rule 26.6 (*Deemed Vesting on Leaving*).

25.4 The Committee may (if it so determines in its absolute discretion) permit the Awardholder to exercise a Share Option Award in respect of a proportion of the Award Shares which is different to the proportion of Award Shares determined by the application of either Rules 25.3.1 to 25.3.2 (as appropriate) if the Committee determines that the vesting outcome achieved under the relevant rule does not reflect the underlying financial performance of the Company.

25.5 Where an Awardholder who holds a Share Option Leaves in any of the circumstances specified in Rules 25.1.1 to 25.1.6 above after the end of the Vesting Period relevant to the Award Shares, such Share Option may be exercised, within the period of 12 months beginning with the Leaving Date, in respect of Award Shares which, immediately before the Leaving Date, were Vested Shares.

**PART F: PERFORMANCE CONDITIONS**

**26. PERFORMANCE CONDITIONS**

26.1 The Committee shall:-

26.1.1 determine the Performance Condition applicable to an Award of Performance Shares or Share Options before that Award is granted; and

26.1.2 in relation to an Award of Matching Shares, determine the Performance Condition for 50% of the Award Shares before that Award is granted and determine the Performance Condition for the remaining 50% of the Award Shares proximate to the first anniversary of the Award Date.

26.2 A Performance Condition may provide that a given number or proportion of Award Shares shall become Vested Shares according to whether, and the extent to which, different levels of performance are achieved or exceeded.

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26.3 After an Award has been granted the Committee may (with the consent of the Grantor, where appropriate), in appropriate circumstances, amend the Performance Condition if an event has occurred or events have occurred in consequence of which the Committee reasonably considers that the existing Performance Condition should be so amended, provided that the Committee considers the varied conditions are fair and reasonable and not materially less difficult to satisfy than the original condition would have been but for the event or events in question.

26.4 The number of Shares in respect of which Award Shares shall become Vested Shares on any occasion shall be rounded up to the nearest whole number of Shares.

**Deemed Vesting upon a Corporate Event**

26.5 If, before the end of the Vesting Period, circumstances arise as mentioned in Rules 29 ("Demerger"), 30 ("Compulsory Acquisition, etc") or 31 ("Change of Control") the Remuneration Committee shall (subject to Rule 26.10 below) determine whether and to what extent any Performance Condition shall then be deemed to be satisfied having regard to the progress towards meeting any applicable Performance Condition.

**Deemed Vesting upon Leaving**

26.6 If an Awardholder Leaves before the end of the Vesting Period, the Committee may (subject to Rule 26.10 below) determine whether and to what extent any Performance Condition shall then be deemed to be satisfied having regard to the progress towards meeting any applicable Performance Condition.

**Determination by the Committee**

26.7 The questions of:-

26.7.1 whether and to what extent a Performance Condition is or is deemed to be satisfied; and

26.7.2 the number or proportion of Award Shares which become Vested Shares

shall be for the determination of the Committee whose decision shall be final and binding.

26.8 In making any such determination, the Committee shall be entitled to make such adjustments as may, in their opinion, be appropriate to take account of the underlying financial performance of the Company over the Performance Period (or that part of the Performance Period as has then elapsed).

26.9 The Company shall, as soon as practicable, notify an Awardholder of the fact that a Performance Condition has been satisfied in whole or in part.

26.10 Where the Committee (or Remuneration Committee as applicable) is required to make a determination in accordance with Rule 26.5 (*Corporate Events*) or Rule 26.6 (*leaving*) above in relation to a portion of an Award of Matching Shares for which no Performance Conditions have yet been determined, the Committee (or Remuneration Committee) shall apply the Performance Condition specified in respect of the other part of that Award of Matching Shares for the purposes of Rules 26.5 or 26.6.

**PART G: RECOVERY OF TAX**

**27. RECOVERY OF TAX**

27.1 If on any occasion an Award Tax Liability arises in relation to or in consequence of anything done pursuant to this Plan, then unless:-

27.1.1 the Awardholder has previously made arrangements, satisfactory to the Company, for payment of his Award Tax Liability; or

27.1.2 the Awardholder has authorised the Grantor, to the extent necessary to reimburse the Grantor or Awardholder's Employer, to sell as agent for the Awardholder (at the best price which can reasonably be expected to be obtained at the time of sale) a sufficient number of Vested Shares, and to procure payment to the Awardholder's Employer out of the net proceeds of sale of such Shares (after deduction of all fees, commissions and expenses incurred in relation to such sale) of monies sufficient to satisfy the indemnity mentioned in Rule 12

the Grantor shall, to the extent necessary to reimburse the Grantor or the Awardholder's Employer, have the right to sell as agent for the Awardholder (as mentioned in Rule 27.1.2) a sufficient number of the Vested Shares, and to procure payment to the Awardholder's Employer, out of the net proceeds of sale of such Shares (after deduction of all fees, commissions and expenses incurred in relation to such sale) of monies sufficient to satisfy the indemnity mentioned in Rule 12 and/or the Awardholder's Employer shall have the right to deduct the requisite amount from the Awardholder's salary.

## **PART H: CORPORATE EVENTS**

### **28. INTERNAL REORGANISATION – AWARDS**

28.1 If:-

28.1.1 in consequence of a demerger, reorganisation, reconstruction or amalgamation, the Company will come under the Control of another company, or the business of the Company will then be carried on by another company and, in either case, substantially all of the persons who owned the Ordinary Share Capital immediately before such change of Control will immediately thereafter continue to have Control of the Company and will then own more than 50 per cent of the issued ordinary share capital of such other company (other than fixed-rate preference shares); and

28.1.2 holders of Awards are each invited to accept an Exchange of Awards

then (if the Remuneration Committee so determines):-

- (a) the provisions of Rules 29, 30 and 31 may not apply; and
- (b) the Awards shall lapse and cease to be exercisable at the end of the period of 21 days beginning with the date on which such invitation is made or, if later, the end of the period in which the Awardholder may accept such invitation.

28.2 The following provisions of Rules 29, 30 and 31 shall have effect subject to this Rule 28.

### **29. DEMERGER**

29.1 If:-

29.1.1 notice is given to shareholders of the Company of a proposed demerger of the Company or of any Subsidiary; and

29.1.2 the Remuneration Committee is of the opinion that the interests of Awardholders would or might be substantially prejudiced by the proposed demerger

the Grantor (acting with the consent of the Remuneration Committee) may, as soon as practicable after the giving of the notice referred to in Rule 29.1.1:-

29.1.3 (subject to Rule 18.1.2 and Rule 24.1.2) notify Awardholders that Nil-Cost Option Awards or Share Options may then be exercised, within one month (or such longer period as may be specified in such notice), in respect of such of the Award Shares (if any) which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below; and

29.1.4 (subject to Rule 29.3 and Rule 29.4 below) issue or transfer or procure the issue or transfer to Awardholders of Award Shares under Contingent Share Awards which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below.

- 29.2 Any Nil-Cost Option Awards or Share Options that are subject to this Rule 29 shall lapse and cease to be exercisable upon the expiry of the period mentioned in Rule 29.1.3 above.
- 29.3 If any issue or transfer of Award Shares under Contingent Share Awards pursuant to Rule 29.1 above would result in any adverse tax consequences for an Awardholder (whether under Section 409A of the US Federal Internal Revenue Code 1986 or otherwise), such issue or transfer shall instead be made as soon as reasonably practicable after the time (determined by the Committee) to be the earliest time at which such issue or transfer of Award Shares will not result in adverse tax consequences.
- 29.4 If an Awardholder is subject to US Federal Income Tax, Award Shares may not be delivered to the Awardholder under Contingent Share Awards pursuant to Rule 29.1 more than 2.5 months after the later of the end of the financial year of the Company or the end of the calendar year in which the demerger occurs.

### 30. **COMPULSORY ACQUISITION, RECONSTRUCTION AND WINDING-UP**

30.1 If:-

- 30.1.1 any person becomes bound or entitled to acquire Shares in the Company under sections 974 – 991 of the Companies Act 2006; or
- 30.1.2 the court sanctions a compromise or arrangement proposed pursuant to Part 26 or Part 27 of the Companies Act 2006; or
- 30.1.3 notice is given of a resolution for a voluntary winding-up of the Company;

the Grantor (acting with the consent of the Remuneration Committee) shall as soon as practicable after the event mentioned in Rules 30.1.1, 30.1.2 or 30.1.3 above:-

- (a) (subject to Rule 18.1.2, Rule 24.1.2 and Rule 30.2) notify Awardholders that Nil-Cost Option Awards or Share Options may then be exercised, within one month (or such longer period as may be specified in such notice), in respect of such of the Award Shares (if any) which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below;
- (b) (subject to Rule 30.4 and Rule 30.5 below) issue or transfer or procure the issue or transfer to Awardholders of Award Shares under Contingent Share Awards which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below.

30.2 Where a compromise or arrangement in connection with the Company is proposed pursuant to Part 26 or Part 27 of the Companies Act 2006, the Company may notify Awardholders that Nil-Cost Option Awards and Share Options may be exercised subject to the Court sanctioning the compromise or arrangement, so that such exercise takes effect immediately after the Court sanctions the compromise or arrangement but before such compromise or arrangement becomes effective. Where the Company so notifies an Awardholder in accordance with this Rule 30.2:-

- 30.2.1 the Nil-Cost Option Awards and Share Options may be exercised in respect of such of the Award Shares (if any) which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below;
- 30.2.2 the period during which the Awardholder may exercise Nil-Cost Option Awards or Share Options will be at least 14 days, ending no more than 14 days before the date on which the Court is expected to sanction the compromise or arrangement; and
- 30.2.3 any entitlement to exercise a Nil-Cost Option Award or Share Option pursuant to this Rule 30.2 shall be in addition to the Awardholder's rights under Rule 30.1 if notice is given to the Awardholder that he may exercise his Award pursuant to that rule.

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- 30.3 All Nil-Cost Option Awards or Share Options shall immediately lapse and cease to be exercisable upon the expiry of the periods mentioned in Rule 30.1 or Rule 30.2 above or the commencement of a winding-up of the Company.
- 30.4 If any issue or transfer of Award Shares under Contingent Share Awards pursuant to Rule 30.1 above would result in any adverse tax consequences for an Awardholder (whether under Section 409A of the US Federal Internal Revenue Code 1986 or otherwise), such issue or transfer shall instead be made as soon as reasonably practicable after the time (determined by the Committee) to be the earliest time at which such issue or transfer of Award Shares will not result in adverse tax consequences.
- 30.5 If the Awardholder is subject to US Federal Income Tax, Award Shares may not be delivered to the Awardholder under Contingent Share Awards pursuant to Rule 30.1 more than 2.5 months after the later of the end of the financial year of the Company or the end of the calendar year in which the event referred to in Rules 30.1.1 to 30.1.3 occurs.

31. **CHANGE OF CONTROL**

31.1 If any person:-

31.1.1 obtains Control of the Company as a result of making a general offer to acquire Shares in the Company; or

31.1.2 having obtained such Control, makes such an offer

then the Grantor (acting with the consent of the Remuneration Committee) shall, as soon as practicable after becoming aware of that event:-

(a) (subject to Rule 18.1.2 and Rule 24.1.2) notify Awardholders that Nil-Cost Option Awards or Share Options may then be exercised, within one month (or such longer period as may be specified in such notice), in respect of such of the Award Shares (if any) which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below; and

(b) (subject to Rule 31.4 and Rule 31.5 below) issue or transfer or procure the issue or transfer to Awardholders of Award Shares under Contingent Share Awards which are then Vested Shares or which are then deemed to become Vested Shares in accordance with Rule 32 below.

31.2 For the purposes of the preceding provisions of this Rule 31 a person shall be deemed to have Control of the Company if he and others acting in concert with him have together obtained Control of it.

31.3 All Nil-Cost Option Awards or Share Options shall immediately lapse and cease to be exercisable upon the expiry of the periods mentioned in Rule 31.1 above.

31.4 If any issue or transfer of Award Shares under Contingent Share Awards pursuant to Rule 31.1 above would result in any adverse tax consequences for an Awardholder (whether under Section 409A of the US Federal Internal Revenue Code 1986 or otherwise), such issue or transfer shall instead be made as soon as reasonably practicable after the time (determined by the Committee) to be the earliest time at which such issue or transfer of Award Shares will not result in adverse tax consequences.

31.5 If any Awardholder is subject to US Federal Income Tax, Award Shares may not be delivered to the Awardholder under Contingent Share Awards pursuant to Rule 31.1 more than 2.5 months after the later of the end of the financial year of the Company or the end of the calendar year in which the change of Control referred to in Rule 31.1 occurs.

32. **DEEMED VESTING ON A CORPORATE EVENT**

- 32.1 Where an event mentioned in any of Rules 29, 30 or 31 occurs before the end of the Vesting Period relevant to Award Shares, the extent to which Award Shares that are not then Vested Shares will be deemed to be Vested Shares shall be determined in accordance with this Rule 32.
- 32.2 The number of Award Shares subject to an Award that will be deemed to be Vested Shares will be determined by:-
- 32.2.1 in accordance with Rule 26.5 above, calculating the extent to which the Performance Condition that applies to the Award has been satisfied up to the time of the relevant event (such time to be determined by the Remuneration Committee); and
- 32.2.2 time pro-rating the total number of Award Shares on the basis of the proportion of the Vesting Period relevant to the Award Shares that has elapsed at the time of the relevant event (such time to be determined by the Remuneration Committee).
- 32.3 The Remuneration Committee may (if it so determines in its absolute discretion) specify that a different number of Award Shares shall be deemed to be Vested Shares than would be the case following the application of Rule 32.2 above if the Remuneration Committee determines that the vesting outcome achieved under Rule 32.2 does not reflect the underlying financial performance of the Company.

## **PART I: AMENDMENTS**

### **33. VARIATION OF SHARE CAPITAL**

- 33.1 In the event of any alteration of the Ordinary Share Capital by way of capitalisation or rights issue, sub-division, consolidation or reduction or any other variation of the share capital of the Company, or (at the discretion of the Remuneration Committee) a demerger or payment of a special dividend, the Remuneration Committee may make such adjustments as it considers appropriate:-
- 33.1.1 to the number of Shares in respect of which a Nil-Cost Option Award, a Share Option or a Contingent Share Award subsists;
- 33.1.2 if a Nil-Cost Option Award or Share Option has been exercised but no Vested Shares have been issued or transferred, to the number of Vested Shares which may be so issued or transferred;
- 33.1.3 to the Exercise Price payable in respect of a Share Option

#### **PROVIDED THAT:-**

- (a) except in the case of a sub-division, consolidation or capitalisation issue, any such adjustment is confirmed in writing by the Auditors to be in their opinion fair and reasonable;
- (b) the number of Shares as so adjusted has been rounded down to the nearest whole number; and
- (c) if the Grantor is not the Company, no such adjustment shall be made without the consent of the Grantor.
- 33.2 As soon as reasonably practicable after making any adjustment pursuant to Rule 33.1, the Directors shall (on behalf of the Grantor) give notice to every Awardholder affected thereby and shall at the written request of any such Awardholder and upon the surrender of any Award Certificates which he holds deliver or procure the delivery to him of revised Award Certificates in respect of his Awards.
- ### **34. ALTERATION OF THE PLAN**
- 34.1 The Committee may make any alteration or amendment to this Plan including such alterations or amendments as may be necessary to take account of any comments of the London Stock Exchange prior to its approval by shareholders of the Company.



34.2 The Committee may thereafter alter or amend any of the provisions of this Plan in any respect **PROVIDED THAT:-**

34.2.1 no such alteration or amendment shall be made to the advantage of existing or new Awardholders to the provisions relating to eligibility to participate, the individual limits on granting Awards, the overall limitations on the making of Awards, the basis for determining Awardholders' rights to acquire Shares and the adjustment of such rights in the event of a variation of the Ordinary Share Capital or this Rule 34 without the prior approval by ordinary resolution of the shareholders of the Company **SAVE THAT** the provisions of this Rule 34.2.1 shall not apply to the extent that such alteration or amendment is in the opinion of the Committee a minor amendment which is necessary or appropriate:-

(a) to benefit the administration of this Plan;

(b) to take account of any change in legislation; or

(c) to obtain or maintain favourable tax, exchange control or regulatory treatment for existing or new Awardholders, the Company, any Subsidiary or any Associated Company; and

34.2.2 if in relation to any Awards the Grantor is not the Company, no alteration or addition shall be made to the terms of such Awards without the approval of the Grantor.

34.3 As soon as reasonably practicable after making any such alteration or addition the Directors shall (on behalf of the Grantor) give notice to every Awardholder (if any) affected thereby.

## **PART J: MISCELLANEOUS**

### **35. ISSUE OF NEW SHARES**

35.1 The number of Shares in respect of which rights to subscribe for Shares may be granted by the Company on any day under this Plan (or which are to be issued in respect of Awards made on that day under this Plan) when aggregated with the number of Shares:-

35.1.1 issued, or remaining capable of being issued on the exercise or vesting of Awards granted during the period of 10 years ending on that date;

35.1.2 issued on the exercise of, or remaining capable of being issued on the exercise of options or other rights to subscribe for Shares granted during the period of 10 years ending on that day under any other employees' share option scheme of the Company; and

35.1.3 issued at the cost of the Company during the period of 10 years ending on that day under or for the purposes of any other employees share scheme of the Company (other than a share option scheme providing for rights to subscribe for Shares);

must not exceed 10 per cent of the Shares in issue on that date.

35.2 For the purposes of this Rule 35 references to rights to subscribe for Shares shall, if so required in accordance with guidance issued by the Association of British Insurers, be taken to include references to rights to acquire Shares issued or to be issued out of treasury.

35.3 For the avoidance of doubt, if Shares have been counted for the purpose of this Rule 35 on their issue to the trustee of any employees' trust established by the Company, they shall not also be counted when they are used to satisfy an Award (or a right granted under any other employees' share scheme of the Company).

### **36. SERVICE OF DOCUMENTS**

36.1 Except as otherwise provided in this Plan, any notice or document to be given by, or on behalf of, the Company or other Grantor or any plan administrator to any person in accordance or in connection with this Plan shall be duly given:-

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- 36.1.1 by sending it through the post in a pre-paid envelope to the address last known to the Company to be his address and, if so sent, it shall be deemed to have been duly given on the date of posting; or
- 36.1.2 if he holds office or employment with any member of the Group or any Associated Company, by delivering it to him at his place of work or by e-mail or by sending to him a facsimile transmission addressed to him at his place of work and if so sent it shall be deemed to have been duly given at the time of transmission **SAVE THAT** a notice or document shall not be duly given by e-mail unless that person is known by his employer company to have personal access during his normal business hours to information sent to him by e-mail.

36.2 Any notice or document so sent to a person in accordance with Rule 36.1 shall be deemed to have been duly given notwithstanding that such person is then deceased (and whether or not the Company or other Grantor has notice of his death) except where his Personal Representatives have established their title to the satisfaction of the Company and supplied to the Company an alternative address to which documents are to be sent.

36.3 Any notice in writing or document to be submitted or given to the Grantor, the Company or a plan administrator in accordance or in connection with this Plan may be delivered, sent by post, facsimile transmission or e-mail but shall not in any event be duly given unless it is actually received (or, in the case of an e-mail, opened) by the Secretary of the Company or such other person as may from time to time be nominated by the Company and whose name and address is notified to Awardholders.

36.4 For the purposes of this Plan, an e-mail shall be treated as not having been duly sent or received if the recipient of such e-mail notifies the sender that it has not been opened because it contains, or is accompanied by a warning or caution that it could contain or be subject to, a virus or other computer programme which could alter damage or interfere with any computer software or e-mail.

#### 37. **STAMP DUTY**

Any stamp duty or stamp duty reserve tax payable in respect of a transfer of Shares to or at the direction of a Awardholder (other than stamp duty or stamp duty reserve tax payable on a sale of Shares by the Grantor at the direction of the Awardholder) shall be paid by the Company or, if different, the Grantor (who shall be reimbursed by the Company).

#### 38. **JURISDICTION**

38.1 This Plan and any Award shall be governed by and construed in all respects in accordance with the laws of England and Wales.

38.2 The courts of England shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning an Award and any matter arising from or in relation to this Plan.

#### 39. **PURCHASES BY TRUSTEE**

39.1 An Awardholder may, subject to the Model Code, direct the Trustee to sell Vested Shares on his behalf and, in this event, such Shares may, if the Trustee so determines, be purchased by the Trustee **PROVIDED THAT** the price per Share paid by the Trustee is not less than the Market Value of a Share on the date of purchase.

#### 40. **THIRD PARTY RIGHTS**

Except as otherwise expressly stated to the contrary, neither this Plan nor the making of any Award shall have the effect of giving any third party any rights under this Plan pursuant to the Contract (Rights of Third Parties) Act 1999 and that Act shall not apply to this Plan or to the terms of any Award under it.

#### 41. **SECTION 409A**

41.1 This Plan shall be operated in accordance with the requirements of Section 409A of the United States Internal Revenue Code of 1986, as amended, and the applicable regulations and other guidance of general applicability that are issued thereunder ("**Section 409A**") in order to avoid the negative tax consequences that may apply under Section 409A. Unless the Committee otherwise determines any provision that is required to appear in the Plan to satisfy the requirements for avoiding Section 409A's negative tax consequences, but that is not expressly set forth, shall be deemed to be set forth herein, and the Plan shall be administered in all respects as if such provision were expressly set forth.

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- 41.2 In the event that an Awardholder incurs tax under the Federal Insurance Contributions Act (FICA) or the corresponding withholding provisions of any applicable state, local or foreign tax laws on any Award before the Awardholder is otherwise entitled to receive a transfer of Vested Shares, the Awardholder may receive an advance on such Vested Shares as permitted under U.S. Treasury Regulation § 1.409A-3(j)(4)(vi). Such advance shall not exceed the aggregate amount of the FICA tax and the corresponding income tax withholdings related to such FICA tax amount relating to an Award.

### **SCHEDULE 1**

#### **Voluntary Resignations where Committee may use its discretion in accordance with Rule 22.1.6 (Contingent Share Awards)**

The individual must Leave by way of Voluntary Resignation during a period of two years following the initial existence of one or more of the following conditions arising without the individual's consent.

1. A material diminution in the individual's base compensation.
2. A material diminution in the individual's authority, duties, or responsibilities.
3. A material diminution in the authority, duties, or responsibilities of the supervisor to whom the individual is required to report, including a requirement that a individual report to a corporate officer or employee instead of reporting directly to the board of directors of a corporation (or similar governing body with respect to an entity other than a corporation).
4. A material diminution in the budget over which the individual retains authority.
5. A material change in the geographic location at which the individual must perform the services.
6. Any other action or inaction that constitutes a material breach by the service recipient of the agreement under which the individual provides services.

**Certification**

I, Glen E. Tullman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allscripts-Misys 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: April 9, 2009

/s/ Glen E. Tullman

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Chairman and Chief Executive Officer

**Certification**

I, William J. Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allscripts-Misys 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: April 9, 2009

/s/ William J. Davis  
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Chief Financial Officer

**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-Misys 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 Quarterly Report on Form 10-Q for the quarter ended February 28, 2009, 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 quarterly report on Form 10-Q for the quarter ended February 28, 2009, fairly presents, in all material respects, the financial condition and results of operations of Allscripts-Misys Healthcare Solutions, Inc.

Dated as of this 9th day of April, 2009.

**/s/ GLEN E. TULLMAN**

**Glen E. Tullman**  
**Chief Executive Officer**

**/s/ WILLIAM J. DAVIS**

**William J. Davis**  
**Chief Financial Officer**

A signed original of this written statement required by Section 906 has been provided to Allscripts-Misys Healthcare Solutions, Inc. and will be retained by Allscripts-Misys Healthcare Solutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.