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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

or

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

Commission File Number **000-32085**

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

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

2401 Commerce Drive, Libertyville, Illinois 60048
(Address of principal executive offices and zip code)

(847) 680-3515
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Documents Incorporated by Reference: Portions of the Proxy Statement for the 2003 annual stockholders meeting are incorporated by reference into Part III.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
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2002 ANNUAL REPORT ON FORM 10-K

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

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

PART I

Item 1. Business

General

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

We provide decision support solutions for physicians that are designed to improve the quality and reduce the cost of healthcare. Our technology-based, physician-centric approach focuses on the point of care, where prescriptions and many other healthcare transactions originate, and creates an electronic dialogue between physicians and other participants in the healthcare delivery process, including patients, pharmacies, managed care organizations and pharmaceutical manufacturers. We believe physicians find our solutions attractive because incorporating these solutions into their office work flow can increase efficiency and profitability, reduce errors and improve the quality of patient care.

The EMR Solution: TouchWorks

Through our own internal development efforts and acquisitions, we have developed a variety of point-of-care solutions that enable physicians to provide higher quality healthcare and deliver it more cost effectively. Our TouchWorks electronic medical record (EMR) software integrates technology into the entire care process. The TouchWorks modules use wireless PDAs, Tablet PCs or desktop workstations to automate the most common physician activities, including prescribing, dictating, capturing charges, ordering lab tests and viewing results, providing patient education, and documenting clinical encounters. The modules are combined with a comprehensive tasking tool that helps physicians organize their practice flow. The modular approach allows physicians to start with a single application and evolve over time to a complete mobile and modular electronic medical record, which we refer to as *m*EMR.

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

- **Ease of Adoption**. Using a modular approach, our physician customers can start with one or a few modules instead of learning the entire system at once. This strategy enables physicians to gain a level of confidence with initial modules and then add more functionality at their own pace, ultimately progressing to a full EMR. We believe that such ease of adoption leads to greater physician utilization and contributes to the success of the TouchWorks solution.

- **Ease of Use**. We have designed TouchWorks to be easy to use, enabling a physician to complete a prescription, dictate a note or document a charge rapidly. Additionally, the TouchWorks system helps the physician automatically document the patient encounter and the activities that occur during the patient visit, increasing accuracy while improving efficiency.

- **Accessibility**. Physicians can instantly access TouchWorks from a variety of locations, including the exam room, hospital or home. They can also perform such important tasks as dictation and charge capture in an offline mode and immediately transfer those files once they reconnect to the network. The EMR software runs on wireless PDAs, Tablet PCs and/or desktop workstations, enabling physicians to use TouchWorks in whatever manner best suits their workflow and habits.

- **Information**. TouchWorks provides valuable, objective information prior to, during and after the care process, enabling physicians to provide higher quality care and deliver that care more cost effectively.

- **Financial Opportunity**. TouchWorks streamlines a very complicated and cumbersome paper-based process that reduces overall costs and provides physicians with a significant financial opportunity.

Competitive Advantage

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

- **Breadth of Product Offering.** Our suite of clinical software solutions features multiple, mobile hardware platforms and includes electronic prescribing, digital dictation, charge capture, and a collection of clinical reference material, encompassing virtually all of the most common administrative functions that a physician performs at the point of care.

- **Modularity.** The ability to implement individual modules of our product enables physicians to start with the tools that solve their most pressing needs first and rapidly implement applications that demonstrate a measurable return on investment.

- **Mobility.** Our product offers a wireless option, allowing the physician to have access to the features of our product at the point of care.

- **Installed Base.** Over 12,000 physicians have purchased one or more of our products or solutions, including physicians associated with some of the country's most prestigious healthcare institutions.

- **Return on Investment.** Based on increases in productivity, quality of care improvement, and greater practice revenue opportunities, we believe we can provide our customers immediate and measurable value.

- **Strategic Alliance with IDX Systems.** Pursuant to a strategic alliance agreement with IDX, Allscripts is the exclusive provider of ambulatory point-of-care clinical applications for IDX's installed base of large physician practices nationwide, representing over 138,000 physician prospects for the TouchWorks solution. The agreement with IDX runs through

January 2011 and includes integration of our clinical applications into IDX practice management systems and joint product development.

TouchWorks products include the following:

Products/Modules	Description	Features	Available on: Desktop	PDA	Tablet PC
TouchWorks					
Workflow	Office automation and work-flow integration tools	Task lists for the physicians and their support teams	X		X
Charge	Automated encounter form	Easy to use template design	X	X	X
Dictate/Document	Electronic dictation and document management	On-line tracking, viewing and printing capabilities	X	X	X
Rx+	Medication management and prescription communication for ambulatory patients	Drug utilization review and plan-specific formulary checking	X	X	X
Result	Display of clinical results and text documents	Online result retrieval	X		X
Scan	Electronic document imaging	Enables a practice to maintain a completely paperless patient record by scanning paper documents into a chart	X		X
Order	Ordering of diagnostic tests, supplies and other items for ambulatory patients	Online ordering	X		X
Note	Structured clinical note creation and editing	Note creation and management	X		X
Pocket Library	Electronic clinical reference	Framework to add content easily		X	X
FirstFill	Medication fullfillment at the point of care	Inventory management and online adjudication	X	X	X

Competition

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

We believe that there is limited direct competition in providing comprehensive decision support solutions to physicians that are easy to use, accessible anywhere and anytime, and deliver information content and financial opportunity for physicians comparable to ours. However, several organizations offer components that overlap with certain components of our solutions and may become increasingly competitive with us in the future.

We face competition from several types of organizations, including the following:

- physician practice management systems suppliers;
- ambulatory electronic medical records providers;
- acute electronic medical records providers; and

- enterprise-wide application providers.

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

The e-Detailing Solution: Physicians Interactive

Pharmaceutical companies are producing new medications on an increasingly frequent basis. Busy physicians understand and utilize these new approaches in the treatment of their patients, but often do not have time to read journals or visit with pharmaceutical representatives. We believe that Physicians Interactive addresses the needs of physicians that are created in this environment.

e-Detailing™ from PI links physicians with pharmaceutical companies and medical suppliers using interactive education sessions to provide product information to the physician. Available anytime and anywhere a physician has access to the Internet, each program takes advantage of PI's physician relationships, experience, and proprietary process to deliver effective and physician-trusted programs. Our pharmaceutical company and medical supplier clients use PI programs to provide physicians with valuable and up-to-date information about various medications and medical products, as well as to collect feedback from physician thought leaders and other experts.

To date, we believe that PI has launched and completed more Internet detailing sessions than all other competitors combined. PI's current client list includes seven of the world's ten largest (based on revenues) pharmaceutical companies, nearly all of which have launched several different e-Detailing programs.

Competitive Advantage

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

- **Relationships**. We have a physician-trusted program with access to over 50,000 physicians anytime. We also benefit from a large network of recruiting partners.

- **Experience**. We have completed over 250 programs in 30 unique specialties, which provides us with the expertise to produce programs that meet the strategic and tactical objectives of our customers.

The PI product offerings include:

Product	Description
e-Detailing	Interactive web-based promotional and educational program targeted at physicians and other healthcare professionals to promote a client's pharmaceutical product and educate participants on disease states.
OpinionLeader	Interactive web-based program targeted at physician advocates and key opinion leaders to collect advice and opinions on pharmaceutical products/marketing messages and to educate and equip national, regional and local speakers.
Survey	Interactive web-based market research program targeted at physicians and other healthcare professionals soliciting their opinions and feedback on pharmaceutical products and disease states.
Convention	Interactive solution for the physician convention and conference setting offering a live, one-on-one interaction between a pharmaceutical sales representative and physician.

Competition

Competitors for PI include other full service e-Detailing companies and companies, provide e-Detailing software, and the in-house sales staffs of our customers.

The Point-of-Care Medication and Medical Supply Solution: Allscripts Direct

When originally founded in 1986, Allscripts Healthcare Solutions was a repackager of medications. Today, this business has grown into Allscripts Direct, the leading provider of point-of-care medication management solutions. With over 15,000 physician customers nationwide, Allscripts Direct provides physician groups, urgent care clinics, and occupational health centers the ability to provide medications at the point of care. We believe that Allscripts Direct medication repackaging services increase safety, compliance, and confidentiality while strengthening the physician's relationship with his or her patient, which can become a competitive advantage over time. Allscripts Direct can also provide an additional revenue stream for physicians who process fee-for-service and online insurance claims for their patients.

Competition

Competitors for Allscripts Direct include other medication repackaging companies and bulk pharmaceutical distributors.

Governmental Regulation

As a participant in the healthcare industry, our operations and relationships are regulated by a number of federal, state and local governmental entities.

The use of our software by physicians to perform electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing is governed by state and federal law. States have differing prescription format requirements, which we have programmed into our software. Many existing laws and regulations, when enacted, did not anticipate methods of e-commerce now being developed. While federal law and the laws of many states permit the electronic transmission of prescription orders, the laws of several states neither specifically permit nor specifically prohibit the practice. Given the rapid growth of e-commerce in healthcare, and particularly the growth of the Internet, we expect the remaining states to directly address these areas with regulation in the near future.

Physician dispensing of medications for profit is allowed in all states except Utah and is prohibited, subject to extremely limited exceptions, in Massachusetts, Montana and Texas. In addition, New York and New Jersey allow physician dispensing of medications for profit, but limit the number of days' supply of all medications, subject to limited exceptions, that a physician can dispense. Several other states limit the number of days' supply of controlled substances that a physician may dispense. Many of the states allowing physician dispensing for profit have regulations relating to licensure, storage, labeling, record keeping and the degree of supervision required by the physician over support personnel who assist in the non-judgmental tasks associated with physician dispensing, like retrieving medication bottles and affixing labels. We regularly monitor these laws and regulations, in consultation with the governing agencies, to assist our customers in understanding compliance requirements of applicable laws and regulations.

Congress enacted significant prohibitions against physician self-referrals in the Omnibus Budget Reconciliation Act of 1993. This law, commonly referred to as "Stark II," applies to physician dispensing of outpatient prescription drugs that are reimbursable by Medicare or Medicaid. Stark II, however, includes an exception for the provision of in-office ancillary services, including a physician's dispensing of outpatient prescription drugs, provided that the physician meets the requirements of the exception. We believe that the physicians who use our TouchWorks system or dispense drugs distributed by us are aware of these requirements, since they are generally well known in the health care industry, but we do not monitor their compliance and have no assurance that our customers are in material compliance with Stark II, either pursuant to the in-office ancillary services exception or another applicable exception. As a distributor of prescription drugs to physicians, we and our customers are also subject to the federal anti-kickback statute, which applies to Medicare, Medicaid and other state and federal programs. The statute prohibits the solicitation, offer, payment or receipt of remuneration in return for referrals or the purchase, or in return for recommending or arranging for the referral or purchase of goods, including drugs, covered by the programs. The anti-kickback law provides a number of exceptions or "safe harbors" for particular types of transactions. We believe that our arrangements with our customers are in material compliance with the anti-kickback statute and relevant safe harbors. Many states have similar fraud and abuse laws, and we believe that we are in material compliance with those laws. If, however, it were determined that we were not in compliance with those laws, we could be subject to liability, and our operations could be curtailed.

As a repackager and distributor of drugs, we are subject to regulation by and licensure with the Food and Drug Administration (FDA), the Drug Enforcement Agency (DEA) and various state agencies that regulate wholesalers or distributors. Among the regulations applicable to our repackaging operation are the FDA's "good manufacturing practices." We are subject to periodic inspections of our facilities by regulatory authorities, and adherence to policies and procedures for compliance with applicable legal requirements. Because the FDA's good manufacturing practices were designed to govern the manufacture, rather than the repackaging, of drugs, we face legal uncertainty concerning the application of some aspects of these regulations and of the standards that the FDA will enforce.

As part of our services provided to physicians, our system will electronically transmit claims for prescription medications dispensed by a physician to many patients' payers for immediate approval and reimbursement. Federal law provides that it is both a civil and a criminal violation for any person to

submit a claim to any payer, including, for example, Medicare, Medicaid and all private health plans and managed care plans, seeking payment for any services or products that overbills or bills for items that have not been provided to the patient. We believe that we have in place policies and procedures to assure that all claims that are transmitted by our system are accurate and complete, provided that the information given to us by our customers is also accurate and complete.

Existing federal and state laws and regulations regulate the disclosure of confidential medical information, including information regarding conditions like AIDS, substance abuse and mental illness. Some of these state laws are not pre-empted by the HIPAA Privacy Standards, discussed below. In addition, the Health Insurance Portability and Accountability Act of 1996 (HIPAA) established a number of important new national standards and procedures for the health care industry, including the *"Standards for Electronic Transactions and Code Sets*" (the Transaction Standards); the "*Security Standard*"; and *Standards for Privacy of Individually Identifiable Health Information"* (the Privacy Standards Rule) The Transaction Standards require the use of specified data coding, formatting and content in all specified "Health Care Transactions" conducted electronically. The Security Standards require the adoption of specified types of security for health care information. The Privacy Standards grant a number of rights to individuals as to their identifiable confidential medical information (called Protected Health Information) and restrict the use and disclosure of Protected Health Information by Covered Entities. Generally, the HIPAA standards directly affect Covered Entities, defined as "health care providers, health care payers, and health care clearinghouses". In addition, the Privacy Standards affect third parties that create or access Protected Health Information in order to perform a function or activity on behalf of a Covered Entity. Such third parties are called "Business Associates". Covered Entities must have a written "Business Associate Agreement" with such third parties, containing specified "satisfactory assurances" that the third party will safeguard Protected Health Information that it creates or accesses and will fulfill other material obligations to support the covered entity's own HIPAA compliance. Most of our customers are Covered Entities. We believe that the principal effects of HIPAA will be, first, to require that our systems be capable of being operated by our customers in a manner that is compliant with the various HIPAA standards and, second, to require us to enter into and comply with Business Associate Agreements with our Covered Entity customers. Most Covered Entities must be in compliance with the Privacy Standards by April 14, 2003, with the Transaction Standards by October 15, 2003 (assuming the Covered Entity made a timely request for a one year extension of the Transaction Standards compliance date), and with the Security Standards by April 20, 2005. As part of the operation of our business, our customers do provide to us patient-identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. We believe that we have policies and procedures to assure that any confidential medical information we receive is handled in a manner that complies with all federal and state confidentiality requirements and with our obligations under Business Associate Agreements with our customers. We believe that our systems and products are, or will be, capable of being used by our customers in compliance with the Transaction Standards and with the Security Standards. However, because all HIPAA Standards are subject to change or interpretation and because certain other HIPAA Standards, not discussed above, are not yet published, we cannot predict the future impact of HIPAA on our business and operations.

Backlog

At December 31, 2002 and 2001, backlog totaled approximately $35, and $30 million, respectively. Approximately $8 to $12 million of the 2002 backlog is not expected to be realized during 2003.

Employees

As of February 28, 2003, we employed 304 persons on a full-time basis, including 89 in customer service and support, 60 in general and administrative, 61 in sales and marketing, 31 in production and

warehousing and 63 in product development. None of our employees is a member of a labor union or is covered by a collective bargaining agreement. We believe we have good relations with our employees.

Item 2. Properties

Our executive offices and state-of-the-art repackaging facilities are located in Libertyville, Illinois, in approximately 80,000 square feet of space under a lease that expires in June 2009. We lease space for two separate, smaller repackaging facilities in Grayslake, Illinois, under a lease that expires in June 2007. We also maintain two other offices for sales, marketing, operations and development efforts in Port Townsend, Washington, with an aggregate of approximately 2,900 square feet under a lease that expires in March 2003, and in Burlington, Vermont, with approximately 15,000 square feet under a lease that expires in January 2006. We believe that our facilities are adequate for our current operations.

Item 3. Legal Proceedings

We are a defendant in over 2,000 multi-defendant lawsuits brought by over 3,000 claimants involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine. The majority of these suits were filed in state courts in Texas beginning in August 1999. The plaintiffs in these cases claim injury as a result of ingesting a combination of these weight-loss drugs. In each of these suits, Allscripts is one of many defendants, including manufacturers and other distributors of these drugs. Allscripts does not believe it has any significant liability incident to the distribution or repackaging of these drugs, and it has tendered defense of these lawsuits to its insurance carrier for handling. In addition, Allscripts has been indemnified by the primary manufacturer of the drugs at issue in these cases. Allscripts believes that it is unlikely that it is responsible for the distribution of the drugs at issue in many of these cases. The lawsuits are in various stages of litigation, and it is too early to determine what, if any, liability Allscripts will have with respect to the claims made in these lawsuits. If Allscripts' insurance coverage in the amount of $16 million per occurrence and $17 million per year in the aggregate and its indemnity from the drug manufacturer is inadequate to satisfy any resulting liability, Allscripts will have to defend these lawsuits and be responsible for the damages, if any, that Allscripts suffers as a result of these lawsuits. Allscripts does not believe that the outcome of these lawsuits will have a material adverse effect on its financial condition, results of operations or cash flows.

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

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Public Market for Common Stock

Our common stock has been quoted on the Nasdaq National Market under the symbol "MDRX" since January 9, 2001. From July 23, 1999 until January 9, 2001, the stock of Allscripts, Inc. traded on the Nasdaq National Market under the same symbol. Prior to July 23, 1999, there was no public market for the common stock. The following table sets forth, for the periods indicated, the high and low closing prices per share of the common stock of Allscripts Healthcare Solutions, Inc. and Allscripts, Inc. for the applicable periods as reported on the Nasdaq National Market.

	High	Low
Year Ended December 31, 2001		
First Quarter	$ 11.66	$ 4.63
Second Quarter	$ 9.00	$ 3.77
Third Quarter	$ 7.52	$ 3.50
Fourth Quarter	$ 4.23	$ 2.20
Year Ended December 31, 2002		
First Quarter	$ 6.64	$ 3.05
Second Quarter	$ 6.34	$ 2.93
Third Quarter	$ 3.83	$ 1.90
Fourth Quarter	$ 3.42	$ 2.01

On March 21, 2003, we had 356 holders of record of common stock. We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Item 6. Selected Financial Data

You should read the selected consolidated financial data shown below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report. The consolidated statements of operations data for the three years ended December 31, 2002 and the consolidated balance sheet data at December 31, 2002 and 2001 are derived from the consolidated financial statements audited by KPMG LLP that are included elsewhere in this report. The consolidated statements of operations data for the years ended December 31, 1999 and 1998 and the balance sheet data at December 31, 2000, 1999, and 1998 are derived from audited financial statements that are not included in this report. The historical results are not necessarily indicative of results to be expected for

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any future period. The consolidated statements of operations data below reflect the pharmacy benefit management business that we sold in March 1999 as a discontinued operation.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per-share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 78,802	$ 70,917	$ 54,983	$ 27,586	$ 23,682
Cost of revenue	58,931	64,083	42,518	21,909	17,320
Restructuring and other charges	—	2,201	—	—	—
Gross profit	19,871	4,633	12,465	5,677	6,362
Operating expenses:					
Selling, general and administrative expenses	36,412	57,908	43,183	20,975	12,658

Amortization of intangibles	540	55,095	24,062	1,351	372
Asset impairment charge	—	354,984	—	—	—
Restructuring and other charges	600	6,435	—	—	430
Write-off of acquired in-process research and development	—	3,000	13,729	—	—
Loss from operations	(17,681)	(472,789)	(68,509)	(16,649)	(7,098)
Interest income (expense), net	2,251	4,772	7,706	1,216	(596)
Other income (expense), net	197	542	(1,000)	—	—
Loss from continuing operations before income taxes	(15,233)	(467,475)	(61,803)	(15,433)	(7,694)
Income tax benefit	—	48,544	—	—	—
Loss from continuing operations	(15,233)	(418,931)	(61,803)	(15,433)	(7,694)
Income from discontinued operations	—	—	83	642	970
Gain from sale of discontinued operations	—	—	4,353	3,547	—
Loss before extraordinary items	(15,233)	(418,931)	(57,367)	(11,244)	(6,724)
Extraordinary loss from early extinguishment of debt	—	—	—	—	(790)
Net loss	(15,233)	(418,931)	(57,367)	(11,244)	(7,514)
Accretion on mandatorily redeemable preferred stock and accrued dividends on preferred stock	—	—	—	(2,198)	(2,415)
Net loss attributable to common stockholders	$ (15,233)	$ (418,931)	$ (57,367)	$ (13,442)	$ (9,929)
Basic and diluted net loss from continuing operations per share, including accretion on mandatorily redeemable preferred stock and accrued dividends on preferred stock	$ (0.40)	$ (11.07)	$ (2.22)	$ (1.20)	$ (1.66)
Weighted-average shares used in computing basic and diluted net loss per share	38,337	37,835	27,900	14,718	6,076
Other Operating Data:					
Prepackaged medication revenue	$ 49,298	$ 49,672	$ 41,567	$ 25,916	$ 23,522
Software and related services revenue	19,921	17,093	8,424	926	160
Information services revenue	9,583	4,152	4,992	744	—
Total revenue	$ 78,802	$ 70,917	$ 54,983	$ 27,586	$ 23,682

	As of December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 65,286	$ 78,290	$ 119,837	$ 55,610	$ 718
Working capital	$ 44,726	$ 46,361	$ 105,114	$ 58,856	$ 271
Goodwill and intangible assets, net	$ 4,793	$ 5,516	$ 149,690	$ 3,575	$ 3,702
Total assets	$ 104,353	$ 117,444	$ 305,420	$ 74,014	$ 18,920
Long-term debt	—	—	—	$ 59	$ 59
Redeemable preferred stock	—	—	—	—	$ 32,547
Total stockholders' equity (deficit)	$ 85,821	$ 98,634	$ 290,975	$ 67,364	$ (26,792)

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

(Dollar amounts in thousands)

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

Overview

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

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

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

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

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

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

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

In July 2001, we announced and began implementation of a restructuring plan to realign our organization; prioritize our initiatives around those high-growth areas of our business; focus on profitability; reduce operating expenses and improve efficiencies in light of the aforementioned acquisitions; and the commitment to focus sales and service efforts on larger physician practices, academic medical centers, and integrated delivery networks. The restructuring plan included workforce and overhead reductions, and the termination of certain strategic agreements and unprofitable customer contracts. As a result of the restructuring plan, we recorded restructuring and other charges of $4,370 and $4,266, respectively, during the third quarter of 2001. In addition, certain events and changes in circumstances caused us to conduct a review of the carrying value of our goodwill and purchased intangible assets. These events included the restructuring plan, the business climate, which generated significant valuation declines of enterprises in our industry, and the failure of certain assets to generate the cash flows that were projected at the time of acquisition. As a result of this review, we recorded an asset impairment charge of $354,984 during 2001.

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

The composition of our revenue by segment is as follows:

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

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

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

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

Discontinued Operations

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

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

Allowance for Doubtful Accounts Receivable

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

Inventories

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

Fixed Assets

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

Goodwill and Intangible Assets

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

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

Software Capitalization

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

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

Deferred Taxes

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

Results of Operations

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

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

Loss from continuing operations	(19.3)	(590.7)	(112.4)
Income from discontinued operations	—	—	0.2
Gain from sale of discontinued operations	—	—	7.9
Net loss	(19.3)%	(590.7)%	(104.3)%

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

Prepackaged Medications

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

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

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

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

Software and Related Services

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

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

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

Information Services

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

Gross profit for information services for the twelve months ended December 31, 2002 increased 203.3%, or $3,688, from $1,814 in 2001 to $5,502 in 2002. Gross profit as a percentage of revenue increased to 57.4% in 2002 from 43.7% in 2001. The increase for both gross profit and gross profit percentage was due to a higher number of physician education sessions completed and increased efficiencies in our recruiting and program development processes.

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

Interest Income and Income Taxes

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

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

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

Prepackaged Medications

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

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

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

Software and Related Services

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

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

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

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

Information Services

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

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

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

Interest Income and Income Taxes

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

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

Selected Quarterly Operating Results

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

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

	Quarter Ended							
	2002				2001			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
	(unaudited)							
Statements of Operations Data:								
Revenue	$ 18,773	$ 20,094	$ 20,006	$ 19,929	$ 16,599	$ 19,173	$ 16,454	$ 18,691
Cost of revenue	14,951	15,124	14,770	14,086	15,588	16,868	16,391	15,236
Restructuring and other charges	—	—	—	—	—	—	2,201	—
Gross profit	3,822	4,970	5,236	5,843	1,011	2,305	(2,138)	3,455
Operating expenses:								
Selling, general and administrative expenses	10,425	9,577	8,314	8,096	14,907	15,176	14,873	12,952
Amortization of intangibles	138	134	135	133	17,788	18,628	18,478	201
Asset impairment charge	—	—	—	—	—	—	354,984	—
Restructuring and other charges	—	—	600	—	—	—	6,435	—
Write-off of acquired in-process research and development	—	—	—	—	3,000	—	—	—
Loss from operations	(6,741)	(4,741)	(3,813)	(2,386)	(34,684)	(31,499)	(396,908)	(9,698)
Interest income, net	716	684	552	299	1,649	1,267	1,032	824
Other income (expense), net	1	95	62	39	135	255	7	144
Loss before taxes	(6,024)	(3,962)	(3,199)	(2,048)	(32,900)	(29,977)	(395,869)	(8,730)
Income tax benefit	—	—	—	—	2,099	2,249	44,012	184
Net loss	$ (6,024)	$ (3,962)	$ (3,199)	$ (2,048)	$ (30,801)	$ (27,728)	$ (351,857)	$ (8,546)
Net loss per share-basic and diluted	$ (0.83)	$ (0.73)	$ (9.26)	$ (0.22)	$ (0.16)	$ (0.10)	$ (0.08)	$ (0.05)

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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

Risk Factors

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

Risks Related to Allscripts Healthcare Solutions, Inc.

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

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

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

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

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

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

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

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

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

This would harm our growth and revenue. In addition, prior to the termination of this agreement, we cannot allow certain specified IDX direct competitors to market, distribute or sell our services, even if that agreement would benefit our business.

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

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

We seek to increase our subscriber base through targeting provider organizations that use IDX practice management systems or other IDX services, and affiliates of these organizations. Our services use the Web FrameWork technology, which we license from IDX, and which enables our software applications and services to be tightly integrated with IDX practice management systems and provide real-time synchronization of data. If our relationship with IDX terminates, our services might not be as attractive to IDX customers and we may not have access to this potential customer base. In such an event, IDX might enter into arrangements that would allow our competitors to utilize IDX technology and IDX could compete against us. If any of these situations were to occur, our expected revenues may be lower, our business may be harmed and our stock price may fall.

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

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

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

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

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

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

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

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

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

The length of the sales cycle for our current TouchWorks product and physician education services depends on a number of factors, including the nature and size of the potential customer and the extent of the commitment being made by the potential customer, and is difficult to predict. Our marketing efforts with respect to large healthcare organizations generally involve a lengthy sales cycle due to these organizations' complex decision-making processes. If potential customers take longer than we expect to decide whether to purchase our solutions, our selling expenses could increase, and we may need to raise additional capital sooner than we would otherwise need to.

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

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

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

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

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

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

We will need to expand our operations if we successfully achieve market acceptance for our products and services. We cannot be certain that our systems, procedures, controls and existing space will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and key employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. An unexpectedly large increase in the volume or pace of traffic on our web site or the number of orders placed by customers may require us to expand and further upgrade our technology. We may not be able to project the rate or timing of increases in the use of our web site accurately or to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future growth could have a significant negative impact on our business because we may incur unexpected expenses and be unable to meet our customers' requirements.

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

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

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

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

company, the diversion of management's attention from other business concerns, entry into markets in which we have little or no direct prior experience, the potential loss of key employees of the acquired company and our inability to maintain the goodwill of the acquired businesses. In order to expand our product and service offerings and grow our business by reaching new customers, we may continue to acquire businesses that we believe are complementary. The successful implementation of this strategy depends on our ability to identify suitable acquisition candidates, acquire companies on acceptable terms, integrate their operations and technology successfully with our own and maintain the goodwill of the acquired business. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed. Moreover, in pursuing acquisition opportunities, we may compete for acquisition targets with other companies with similar growth strategies. Some of these competitors may be larger and have greater financial and other resources than we have. Competition for these acquisition targets could also result in increased prices of acquisition targets.

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

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

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

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

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

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

To succeed, we must be able to operate our systems without interruption. Certain of our communications and information services are provided through our service providers. Our operations are vulnerable to interruption by damage from a variety of sources, many of which are not within our control, including:

- power loss and telecommunications failures;
- software and hardware errors, failures or crashes;
- computer viruses and similar disruptive problems; and
- fire, flood and other natural disasters.

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

We may be liable for use of data we provide.

We provide data for use by healthcare providers in treating patients. Third-party contractors provide us with most of this data. Although no claims have been brought against us alleging injuries related to the use of our data, claims may be made in the future. While we maintain product liability insurance coverage in an amount that we believe is sufficient for our business, we cannot assure you that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. A claim brought against us that is uninsured or under-insured could materially harm our financial condition.

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

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

It is also possible that third parties could penetrate our network security or otherwise misappropriate patient information and other data. If this happens, our operations could be interrupted, and we could be subject to liability. We may have to devote significant financial and other resources to protect against security breaches or to alleviate problems caused by breaches. We could face financial loss, litigation and other liabilities to the extent that our activities or the activities of third-party contractors involve the storage and transmission of confidential information like patient records or credit information. In addition, we could incur additional expenses to comply with the HIPAA Transaction Standards, Security Standards and Privacy Standards, all discussed above, and to ensure that our products and services are capable of being utilized by those of our customers that are Covered Entities in a manner that is compliant.

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

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

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

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

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

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

We expect to derive a significant portion of our revenue from sales, including sales over the Internet, of prepackaged medications to physicians. We may be subject to pricing pressures with respect to our future sales of prepackaged medications arising from various sources, including practices of managed care organizations and any governmental action requiring or allowing pharmaceutical reimbursement under Medicare. If our pricing of prepackaged medications experiences significant downward pressure, our business will be less profitable.

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

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

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

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

times during the year, we may be unable to meet our commitments to our customers, and our relationships with our customers could suffer.

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

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

Risks Related to Our Industry

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

As a participant in the healthcare industry, our operations and relationships are regulated by a number of federal, state and local governmental entities. Because our business relationships with physicians are unique, and the healthcare electronic commerce industry as a whole is relatively young, the application of many state and federal regulations to our business operations is uncertain. It is possible that a review of our business practices or those of our customers by courts or regulatory authorities could result in a determination that could adversely affect us. In addition, the healthcare regulatory environment may change in a way that restricts our existing operations or our growth.

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

- **Licensure.** As a repackager and distributor of drugs, we are subject to regulation by and licensure with the United States Food and Drug Administration, the United States Drug Enforcement Administration and various state agencies that regulate wholesalers or distributors. Among the regulations applicable to our repackaging operation are the FDA's "good manufacturing practice" regulations. Because the FDA's good manufacturing practice regulations were designed to govern the manufacture, rather than the repackaging, of drugs, we face legal uncertainty concerning the application of some aspects of these regulations and of the standards that the FDA will enforce. Both the FDA and the DEA have the right, at any time, to inspect our facilities and operations to determine if we are operating in compliance with the requirements for licensure and all applicable laws and regulations. In August of 1998, we received an FDA warning letter, like many other drug repackagers, alleging violations of FDA regulations, including the good manufacturing practice regulations. We subsequently implemented procedures intended to address many of the concerns raised by the FDA in that letter and believe that our compliance with FDA regulations meets or exceeds the standard in the drug repackaging industry. We were subsequently inspected in August 2001 and had no warning letter issued as a result of that inspection. We also believe that we possess all licenses

required to operate our business. If, however, we do not maintain all necessary licenses, or the FDA decides to substantially modify the manner in which it has historically enforced its good manufacturing practice regulations against drug repackagers or the FDA or DEA finds any violations during one of their periodic inspections, we could be subject to liability, and our operations could be shut down.

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

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

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

- **Drug Distribution.** As a distributor of prescription drugs to physicians, we and our customers are also subject to the federal anti-kickback statute, which applies to Medicare, Medicaid and other state and federal programs. The statute prohibits the solicitation, offer, payment or receipt of remuneration in return for referrals or the purchase, or in return for recommending or arranging for the referral or purchase of goods, including drugs, covered by the programs. The anti-kickback law provides a number of exceptions or "safe harbors" for particular types of transactions. We believe that our arrangements with our customers are in material compliance with the anti-kickback statute and relevant safe harbors. Many states have similar fraud and abuse laws, and we believe that we are in material compliance with those laws. If, however, it

were determined that we were not in compliance with those laws, we could be subject to liability, and our operations could be curtailed.

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

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

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

proposed, enacted or implemented or what impact those initiatives may have on our business, financial condition or results of operations.

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

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

Consolidation in the healthcare industry could adversely affect our business.

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

Risks Related to Our Stock

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

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

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

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

common stock. Volatility in the market price for our common stock may result in the filing of securities class action litigation.

Our quarterly operating results may vary.

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

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

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

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

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

Safe Harbor for Forward-Looking Statements

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

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

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

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

Item 8. Financial Statements and Supplementary Data

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Allscripts Healthcare Solutions, Inc. and subsidiary (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allscripts Healthcare Solutions, Inc. and subsidiary as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002.

/s/ KPMG LLP

Chicago, Illinois
March 28, 2003

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

	December 31,	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,247	$ 34,124
Marketable securities	19,117	6,352
Accounts receivable, net of allowances of $3,876 in 2002 and $6,203 in 2001	18,659	14,512
Other receivables	747	671
Inventories	3,988	6,225
Prepaid expenses	2,860	2,573
Other current assets	477	389
Total current assets	63,095	64,846

Long-term marketable securities	28,922	37,814
Fixed assets, net	4,384	8,449
Software development costs, net	2,676	52
Intangible assets, net	4,060	4,783
Goodwill	733	733
Other assets.	483	767
Total assets	$ 104,353	$ 117,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,488	$ 5,160
Accrued expenses	3,583	3,579
Accrued compensation	2,611	2,873
Accrued restructuring and other charges	1,140	2,991
Deferred revenue	6,547	3,882
Total current liabilities	18,369	18,485
Other liabilities	163	325
Total liabilities	18,532	18,810
Preferred stock:		
Undesignated, $0.01 par value, 1,000 shares authorized, no shares issued and outstanding at December 31, 2002 and 2001	—	—
Common stock:		
$0.01 par value, 150,000 shares authorized; 38,427 shares issued and outstanding at December 31, 2002; 38,050 shares issued, 38,016 shares outstanding at December 31, 2001	385	381
Additional paid-in capital	638,694	636,755
Unearned compensation	(78)	(404)
Treasury stock at cost:		
0 and 34 common shares at December 31, 2002 and 2001	—	(68)
Accumulated deficit	(553,539)	(538,306)
Accumulated other comprehensive income	359	276
Total stockholders' equity	85,821	98,634
Total liabilities and stockholders' equity.	$ 104,353	$ 117,444

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

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

	Year ended December 31,		
	2002	2001	2000
Revenue:			
Prepackaged medications	$ 49,298	$ 49,672	$ 41,567
Software and related services	19,921	17,093	8,424
Information services	9,583	4,152	4,992
Total revenue	78,802	70,917	54,983
Cost of revenue:			
Prepackaged medications	40,044	41,532	32,983
Software and related services	14,806	20,213	6,739
Information services	4,081	2,338	2,796

Restructuring and other charges	—	2,201	—
Total cost of revenue	58,931	66,284	42,518
Gross profit	19,871	4,633	12,465
Operating expenses:			
Selling, general and administrative expenses	36,412	57,908	43,183
Amortization of intangibles	540	55,095	24,062
Asset impairment charge	—	354,984	—
Restructuring and other charges	600	6,435	—
Write-off of acquired in-process research and development	—	3,000	13,729
Loss from operations	(17,681)	(472,789)	(68,509)
Interest income	2,406	5,055	7,877
Interest expense	(155)	(283)	(171)
Other income (expense), net	197	542	(1,000)
Loss from continuing operations before income taxes	(15,233)	(467,475)	(61,803)
Income tax benefit	—	48,544	—
Loss from continuing operations	(15,233)	(418,931)	(61,803)
Income from discontinued operations	—	—	83
Gain from sale of discontinued operations	—	—	4,353
Net loss	$ (15,233)	$ (418,931)	$ (57,367)
Per-share data—basic and diluted:			
Loss from continuing operations	$ (0.40)	$ (11.07)	$ (2.22)
Income from discontinued operations	—	—	—
Gain from sale of discontinued operations	—	—	0.16
Net loss	$ (0.40)	$ (11.07)	$ (2.06)
Weighted-average shares of common stock outstanding used in computing basic and diluted net loss per share	38,337	37,835	27,900

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

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Unearned Compen-sation	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Total	Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount			Shares	Amount				
Balance at December 31, 1999	—	$ —	24,222	$ 242	$ 130,830	$ (1,632)	34	$ (68)	$ (62,008)	—	$ 67,364	
Issuance of 215 shares of common stock to IMS			215	2	9,981						9,983	
Issuance of 2,641 shares of common stock in connection with acquisitions and option conversions			2,641	26	169,044						169,070	
Issuance of 1,452 shares of common stock in public offering, net of offering expenses			1,452	15	99,751						99,766	
Issuance of 887 shares of common												

stock under option and warrant agreements			887	9	733						742	
Compensation expense					751	535					1,286	
Other, net					(9)						(9)	
Comprehensive income (loss):												
Net loss									(57,367)		(57,367)	$ (57,367)
Other comprehensive income—unrealized gain on marketable securities, net of tax of $93										140	140	140
Total comprehensive income (loss)												(57,227)
Balance at December 31, 2000	—	—	29,417	294	411,081	(1,097)	34	(68)	(119,375)	140	290,975	
Issuance of 8,593 shares of common stock in connection with acquisitions and option conversions			8,593	86	225,844						225,930	
Issuance of 40 shares of common stock under option and warrant agreements			40	1	22						23	
Compensation expense					(192)	693					501	
Comprehensive income (loss):												
Net loss									(418,931)		(418,931)	(418,931)
Other comprehensive income—unrealized gain on marketable securities, net of tax of $91										136	136	136
Total comprehensive income (loss)												(418,795)
Balance at December 31, 2001.	—	—	38,050	381	636,755	(404)	34	(68)	(538,306)	276	98,634	
Issuance of 379 shares of common stock, net of transaction costs			379	4	1,978						1,982	
Issuance of 32 shares of common stock under option and warrant agreements			32	—	26						26	
Retirement of 34 shares of common stock held in treasury			(34)		(68)		(34)	68			—	
Compensation expense					3	326					329	
Comprehensive income (loss):												
Net loss									(15,233)		(15,233)	(15,233)
Other comprehensive income—unrealized gain on marketable securities, net of tax of $0										83	83	83
Total comprehensive income (loss)												$ (15,150)
Balance at December 31, 2002	—	$ —	38,427	$ 385	$ 638,694	$ (78)	—	$ —	$ (553,539)	$ 359	$ 85,821	

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

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

Year ended December 31.

	2002	2001	2000
Cash flows from operating activities:			
Net loss	$ (15,233)	$ (418,931)	$ (57,367)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,558	68,010	28,632
Gain on sale of discontinued operations	—	—	(4,353)
Expense from issuance of equity instruments to non-employees	—	—	751
Write-off of acquired in-process research and development	—	3,000	13,729
Restructuring and other charges	600	8,636	—
Write-down of investment	—	—	1,000
Non-cash compensation expense	329	501	535
Realized gain on investments	(122)	(348)	—
Asset impairment charge	—	354,984	—
Deferred taxes	—	(48,544)	—
Provision for doubtful accounts	896	994	980
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(5,043)	(2,377)	(8,449)
Other receivables	(76)	4,748	(951)
Inventories	2,450	(1,539)	(1,525)
Prepaid expenses and other assets	(117)	(438)	(2,782)
Accounts payable	(672)	(1,462)	2,051
Accrued compensation	(262)	143	540
Accrued restructuring and other charges	(1,807)	(2,119)	—
Accrued expenses	36	(119)	1,394
Deferred revenue	2,665	1,901	701
Other liabilities	28	—	135
Net cash used in operating activities	(10,770)	(32,960)	(24,979)
Cash flows from investing activities:			
Capital expenditures	(1,653)	(3,637)	(9,351)
Purchase of marketable securities	(35,473)	(53,635)	(61,112)
Maturities of marketable securities	31,805	53,368	33,296
Capitalized software development costs	(2,697)	(52)	—
Proceeds from sale of discontinued operations	—	—	4,353
Cash provided by (used for) acquisitions, net of acquired cash	125	(5,305)	(13,223)
Purchase of equity investment	—	—	(1,000)
Net cash used in investing activities	(7,893)	(9,261)	(47,037)
Cash flows from financing activities:			
Proceeds from public offering, net of offering costs	—	—	99,766
Payments under line of credit	—	—	(2,464)
Payments of capital lease obligations	(222)	(191)	—
Payment of notes payable	—	—	(59)
Proceeds from issuance of common stock, net of transaction costs	1,982	—	9,983
Proceeds from exercise of common stock options and warrants	26	23	742
Net cash provided by (used in) financing activities	1,786	(168)	107,968
Net (decrease) increase in cash and cash equivalents	(16,877)	(42,389)	35,952
Cash and cash equivalents, beginning of year	34,124	76,513	40,561
Cash and cash equivalents, end of year	$ 17,247	$ 34,124	$ 76,513

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Nature of Business

Allscripts Healthcare Solutions, Inc. (formerly Allscripts, Inc.) and its wholly-owned subsidiary, Allscripts, Inc., (collectively referred to as "Allscripts"), provide clinical software and information solutions for physicians and distribute prepackaged medications.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents balances at December 31, 2002 and 2001 consist of cash and highly liquid corporate debt securities with maturities at the time of purchase of less than 90 days. Allscripts' cash, cash equivalents, short-term marketable securities and long-term marketable securities are invested in overnight repurchase agreements, money market funds and corporate debt securities. The carrying values of cash and cash equivalents, short-term marketable securities and long-term marketable securities held by Allscripts are as follows:

	December 31, 2002	December 31, 2001
Cash and cash equivalents:		
Cash	$ 4,270	$ 4,947
Money market funds	3,077	608
U.S. government and agency debt obligations	—	3,480
Corporate debt securities	9,900	25,089
	17,247	34,124
Short-term marketable securities:		
Corporate debt securities	12,060	6,352
U.S. government and agency debt obligations	4,060	—
Certificates of deposit	2,997	—
	19,117	6,352
Long-term marketable securities:		
U.S. government and agency debt obligations	11,176	15,775
Corporate debt securities (contractual lives ranging from 1-18 years)	17,746	22,039
	28,922	37,814
Total cash and cash equivalents and marketable securities	$ 65,286	$ 78,290

Net unrealized gains were $105 and $439 under short-term and long-term marketable securities, respectively, as of December 31, 2002. Net unrealized gains were $3 and $457 under short-term and long-term marketable securities, respectively, as of December 31, 2001. Net realized gains were $122 and $348 for the years ended December 31, 2002 and 2001, respectively. Net realized gains and losses were immaterial for the year ended December 31, 2000. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates the designation at each balance sheet date. As of December 31, 2002 and 2001, marketable debt securities were classified as available-for-sale and carried at their fair value, with the unrealized gains and losses reported net-of-tax in a separate component of stockholders' equity.

Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income (expense). The cost of securities sold is based on specific identification. Interest and dividends on securities classified as available-for-sale are included in interest income.

Inventories

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

Fixed Assets

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

Website Costs

Allscripts' website costs consist of the costs to develop features that enable users to perform functions online, hosting costs and costs to develop content and graphics. Allscripts accounts for website development costs in accordance with Emerging Issues Task Force (EITF) Consensus 00-2, "Accounting for Web Site Development Costs." At December 31, 2002 and 2001, the net book value of costs capitalized for the development of Allscripts' website was approximately $0 and $142, respectively, and was included in fixed assets . These costs are being amortized over the expected life of the website, which is two years. Costs associated with content changes and maintenance incurred subsequent to the launch of the website have been expensed as incurred.

Goodwill and Intangible Assets

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

Within six months of the adoption of FAS No. 142, Allscripts performed a transitional test to assess whether there was an indication that goodwill was impaired as of the date of adoption. No indicators of impairment for any reporting unit were identified as a result of the transitional impairment test. Allscripts has selected January 1 as the date of its annual impairment test of goodwill. No indicators of impairment were identified as a result of its annual impairment test on January 1, 2003.

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

Intangible assets with estimable useful lives are stated at cost and consist of strategic agreements. Allscripts amortizes these intangible assets using the straight-line method over the remaining estimated economic lives of those assets, including the period being reported on.

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

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

Software Development Costs

Allscripts capitalizes purchased software that is ready for service and software development costs incurred from the time technological feasibility of the software is established until the software is available for general release in accordance with FAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Upon the establishment of technological feasibility, related software development costs are capitalized. During 2002 and 2001, development costs in the amount of $2,697 and $52, respectively, were capitalized. Prior to 2001, development costs of Allscripts' software were not capitalized because its recoverability was uncertain since market acceptance of the software had not been achieved. The unamortized balance of capitalized software at the end of 2002 and 2001 was $2,676 and $52, respectively. Upon the availability for general release, Allscripts commences amortization of the software on a product by product basis. Amortization is recorded based upon the greater of the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product including the period being reported on which is estimated to be three years. Amortization of capitalized software development costs

amounted to $73, $0, and $0 for 2002, 2001 and 2000, respectively. Software development costs of $3,904, $8,008, and $3,774 have been expensed in 2002, 2001 and 2000, respectively.

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

Income Taxes

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

Stock-Based Compensation

At December 31, 2002, Allscripts had three stock-based employee compensation plans, which are more fully described in Note 9. Allscripts applies the provisions of FAS No. 123, "Accounting for Stock-Based Compensation". As allowed by FAS No. 123, Allscripts has elected to continue to account for its stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation expense has been recognized based on the intrinsic value of compensatory options or shares granted under the plans. Allscripts has adopted the disclosure provisions required by FAS 123.

Revenue Recognition

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

Revenue is also generated from the sale of software licenses and related consulting services as well as from subscriptions for software and hardware.

Revenue from software licensing arrangements where the service element is considered essential to the functionality of the others 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." Revenue is recognized on an output basis as contract milestones are reached provided that the fee is fixed and determinable and collection of the receivable is considered probable. Maintenance and support revenue from these agreements is recognized over the term of the support agreement based on the fair value of the maintenance revenue, which is generally based on contracted renewal rates. For agreements which are deemed to have extended payment terms, revenue is recognized as amounts become due and payable

upon invoicing, not to exceed the amount of revenue supported by milestones reached. As of December 31, 2002, there was $690 of revenue earned on contracts in excess of billings, which is included in the balance of accounts receivable, and $3,159 of billings in excess of revenue earned on contracts in progress, which is included in the balance of deferred revenue. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms.

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." 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 to be 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. For agreements which are deemed to have extended payment terms, revenue is recognized as amounts become due over the term of the agreement.

Revenue from custom service arrangements is recognized as services are performed.

Revenue for each deliverable in the information services segment arrangements is generally recognized when it is delivered. For those arrangements where the deliverables do not qualify as a separate unit of accounting, the revenue is recognized on a straight-line basis over the term of the arrangement.

In November 2001, the EITF issued Consensus 01-14 (EITF 01-14), "Income Statement Characterization of Reimbursements for "Out-of-Pocket' Expenses Incurred," which requires that reimbursements for out-of-pocket expenses be classified as revenue in the statement of operations. The consensus is effective for fiscal years beginning after December 15, 2001. Allscripts has adopted EITF 01-14 and reimbursements are recorded as revenue. Out-of-pocket expenses reimbursed by customers that were classified as revenue for the years ended December 31, 2002, 2001 and 2000 were $584, $163 and $0, respectively.

Manufacturer Rebates

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

Advertising Costs

Allscripts recognizes all advertising costs as incurred. Advertising expense was $10, $359 and $1,006 in 2002, 2001 and 2000, respectively.

Comprehensive Income

Allscripts accounts for comprehensive income in accordance with FAS No. 130, "Reporting Comprehensive Income." FAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Allscripts has reported

unrealized gains (losses) on certain investments as other comprehensive income. The reclassification adjustments on unrealized gains on marketable securities for the years ended December 31, 2002 and 2001, were $219 and $125, respectively, net of taxes of $0 and $83, respectively.

Net Loss Per Share

Allscripts accounts for net loss per share in accordance with FAS No. 128, "Earnings per Share." FAS 128 requires the presentation of "basic" loss per share and "diluted" loss per share. Basic loss per share is computed by dividing the net loss by the weighted-average shares of outstanding common stock. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive potential common stock.

In accordance with FAS 128, basic and diluted net loss per share have been computed using the weighted-average number of shares of common stock outstanding during the period. Allscripts has excluded the impact of all outstanding warrants and options to purchase shares of common stock from the calculation of diluted loss per share because all such securities are antidilutive for all periods presented.

Shares of common stock issuable from securities that could potentially dilute basic earnings per share in the future that were not included in the computation of earnings per share because their effect was anti-dilutive were as follows at December 31:

	2002	2001	2000
Stock options	7,275	6,571	3,728
Warrants	3	8	19
Total	7,278	6,579	3,747

Fair Value of Financial Instruments

Cash and cash equivalents and marketable securities are reported at their fair values in the balance sheets with the corresponding mark-to-market adjustments recorded as other comprehensive income in stockholders' equity. The carrying amounts reported in the balance sheets for accounts receivable and accounts payable approximate their fair values due to the short-term nature of these financial instruments.

Risks and Uncertainties

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

Allscripts sells its products and services to healthcare providers. Credit risk with respect to trade receivables is generally diversified due to the large number of customers and their dispersion across the United States. To reduce credit risk, Allscripts performs ongoing credit evaluations of its customers and their payment histories. In general, Allscripts does not require collateral from its customers, but it does enter into advance deposit, security or guarantee agreements, if appropriate. The provision for doubtful accounts aggregated $896, $994 and $980 in 2002, 2001 and 2000, respectively.

All revenue is derived from customers located in the United States. All long-lived assets are located in the United States. There were no customers that accounted for greater than 10% of revenue or accounts receivable in 2002, 2001 or 2000.

Allscripts purchases a majority of its drug inventories under a contractual agreement with one wholesaler/distributor. In 2002, purchases of inventory with one supplier approximated 75% of all inventory purchases during the year. Allscripts changed its primary wholesaler/distributor at the beginning of 2002. In 2001 and 2000, purchases of inventory approximated 68% and 65%, respectively, of all inventory purchases during each year with a different supplier. At December 31, 2002 and 2001, approximately 51% and 44%, respectively, of accounts payable related to these purchases. Allscripts is exposed to risk of loss of revenue and/or customers in the event of breach of contract or nonperformance by this wholesaler/distributor resulting in restriction of or diminished availability of inventory from this wholesaler/distributor. However, Allscripts does not anticipate that a breach of contract or any nonperformance will occur, but, in the event it did, Allscipts believes that there are several other available wholesalers/distributors which would be able to provide the necessary inventories to Allscripts on a timely basis such that no material loss would occur.

Allscripts provides its software customers with a standard 90-day product warranty beginning with live use of the software. If a software product is found to have a material defect that causes the product not to operate in accordance with the software specifications, Allscripts will deliver any necessary alterations to the customer.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

3. Business Combinations

On January 8, 2001, Allscripts acquired Channelhealth in exchange for 8,593 shares of common stock with a fair value of approximately $218,400 and the issuance of approximately 493 common stock options in replacement of Channelhealth common stock options with a fair value of approximately $7,600. Transaction costs incurred were approximately $5,000. A deferred tax liability of $48,400, based on the tax effects of non-goodwill intangibles related to the acquisition, was recorded. The business combination was accounted for using the purchase method of accounting and Channelhealth's results of operations have been included in the consolidated financial statements since the date of acquisition. Approximately $3,000 of the purchase price was allocated to the value of acquired in-process research and development that had no alternative future use and was charged to operations during 2001. Allscripts recorded approximately $2,000 of net tangible assets in connection with the acquisition. In addition, approximately $27,000 of the purchase price was allocated to acquired software. Approximately $91,000 of the purchase price was allocated to a strategic alliance agreement and is being amortized on a straight-line basis over the term of the agreement, which is ten years.

Approximately $153,300 of the purchase price was allocated to trade names, goodwill, and assembled workforce. The asset impairment charge recorded during 2001 includes a write-down of these assets of $233,702. During 2002, Allscripts received a payment of $125 related to guarantees as part of the original terms of the acquisition.

On May 17, 2000, Allscripts acquired Medifor, Inc., a provider of computerized patient and physician education products. In exchange for all of the outstanding common and preferred A and B stock of Medifor, Allscripts issued 936 shares of its common stock with a fair value of approximately $34,400. In addition, Allscripts issued 143 common stock options in replacement of Medifor common stock options with a fair value of approximately $4,200. The business combination was accounted for using the purchase method of accounting and Medifor's results of operations have been included in the consolidated financial statements since the date of acquisition. Approximately $8,700 of the purchase price was allocated to the value of acquired in-process research and development that had no alternative future use and was charged against operations during 2000. Trademarks and goodwill were recorded totaling $30,300. The asset impairment charge recorded during 2001 includes a write-down of these assets of $22,061.

On May 9, 2000, Allscripts acquired MasterChart, Inc., a software developer providing dictation, integration and patient record technology. In exchange for all of the outstanding common stock of MasterChart, Allscripts issued 1,618 shares of its common stock with a value of approximately $127,400 and paid cash of approximately $5,000. The business combination was accounted for using the purchase method of accounting and MasterChart's results of operations have been included in the consolidated financial statements since the date of acquisition. Approximately $5,000 of the purchase price was allocated to the value of acquired in-process research and development that had no alternative future use and was charged against operations during 2000. In addition, approximately $4,600 of the purchase price was allocated to acquired software and was amortized on a straight-line basis over two years, the software's estimated useful life. Trademarks and goodwill totaled approximately $125,600. The asset impairment charge recorded during 2001 includes a write-down of these assets of $91,796.

In 2000, Allscripts completed another acquisition through the issuance of 87 shares of its common stock with a value of approximately $3,000 and a payment of $8,000 in cash. The business combination was accounted for using the purchase method of accounting, and the results of operations have been included in the consolidated financial statements since the date of acquisition. The acquisition resulted in goodwill of approximately $10,800. The operating results of this acquisition were not material. The asset impairment charge recorded during 2001 includes a write-down of these assets of $7,210.

The income approach was the primary technique utilized in valuing the purchased in-process research and development in the acquisitions described above. The income approach focuses on the income-producing capability of the acquired assets and best represents the present value of the future economic benefits expected to be derived from these assets. The approach included, but was not limited to, an analysis of (i) the expected cash flows attributable to the in-process research and development projects; (ii) the risks associated with achieving such cash flows; (iii) the completion costs for the projects, and (iv) the stage of the completion of each project.

4. Fixed Assets

Fixed assets as of December 31 consist of the following:

	Estimated Useful Life	2002	2001
Office furniture and equipment	2-7 years	$ 11,473	$ 10,487
Service assets	2 years	9,014	10,523
Production and warehouse equipment	5-7 years	1,324	1,103
Leasehold improvements	4-7 years	2,067	1,486
Website development costs	2 years	397	397
		24,275	23,996
Less accumulated depreciation and amortization		(19,891)	(15,547)
Fixed assets, net		$ 4,384	$ 8,449

Depreciation and amortization expense was approximately $4,861, $7,216 and $3,411 in 2002, 2001 and 2000, respectively.

Service assets include equipment placed with customers for their use in running Allscripts' software. At December 31, 2002 and 2001, service assets included $58 and $2,689, respectively, of assets at physician sites in various stages of installation for which depreciation had not begun. Amounts deemed necessary to reserve for write-downs to fair value on returned equipment are included in accumulated depreciation and amortization.

5. Goodwill, Intangible Assets and Impairments

Goodwill at December 31, 2002, consisted of $594 and $139 related to the prepackaged medications and software and related services segments, respectively. There was no change in the balance of goodwill during 2002.

Intangible assets, both of which are amortized, as of December 31 consist of the following:

	2002			2001		
	Gross Asset	Accumulated Amortization	Intangible assets, net	Gross Asset	Accumulated Amortization	Intangible assets, net
Acquired software	$ —	$ —	$ —	$ 149	$ 61	$ 88
Strategic agreements	4,700	640	4,060	4,825	130	4,695
Total	$ 4,700	$ 640	$ 4,060	$ 4,974	$ 191	$ 4,783

The acquired software was being amortized over a three-year period. The strategic agreements are being amortized over their contractual life, which is 10 years. Amortization expense related to the above intangible assets was $598 for the year ended December 31, 2002.

Allscripts estimates that the amortization expense will be approximately $506 per year for the next five fiscal years.

During the year ended December 31, 2002, Allscripts received a payment of $125 related to the Channelhealth acquisition. The payment was recorded as a reduction of the carrying value of the strategic agreements.

The following table is a reconciliation of reported net loss and basic and diluted net loss per share to adjusted net loss and adjusted basic and diluted net loss per share reflecting the impact as if FAS No. 142 had been effective for the year ended December 31:

	2002	2001	2000
Reported net loss	$ (15,233)	$ (418,931)	$ (57,367)
Goodwill amortization	—	43,626	20,358
Adjusted net loss	$ (15,233)	$ (375,305)	$ (37,009)
Per-share data—basic and diluted:			
Reported net loss	$ (0.40)	$ (11.07)	$ (2.06)
Goodwill amortization	—	1.15	0.73
Adjusted net loss	$ (0.40)	$ (9.92)	$ (1.33)

During the year ended December 31, 2001, certain events and changes in circumstances caused Allscripts to conduct a review of the carrying value of its goodwill and purchased intangible assets. These events included: (1) the consolidation and integration of the Allscripts' software products and related service organization; (2) a restructuring plan, including workforce reduction, initiated in July 2001; and (3) changes in the business climate, which generated the valuation declines of healthcare information technology and e-health companies. Certain intangibles were determined to be impaired because the carrying amount of the assets exceeded the undiscounted future cash flows expected to be derived from the assets. These impairment losses were measured as the amount by which the carrying amounts of the assets exceeded the fair values of the assets, determined based on the discounted future cash flows expected to be derived from the assets.

The goodwill and intangible assets acquired in the purchase of Channelhealth, Masterchart, Medifor and other acquisitions were determined to be impaired. The resulting impairment charge totaled $354,984 and was reported as a component of operating expenses in 2001.

A summary of the asset impairment charge is outlined as follows:

	Impairment Charge
Goodwill	$ 227,026
Strategic agreements	79,593
Software	24,328
Tradenames	22,326
Assembled workforce	1,711
Total	$ 354,984

6. Restructuring and Other Charges

In July 2001, Allscripts announced and began implementation of a restructuring plan to realign its organization; prioritize its initiatives around high-growth areas of its business; focus on profitability; reduce operating expenses; improve efficiencies in light of recent acquisitions; and focus sales and service efforts on larger physician practices, academic medical centers, and integrated delivery networks. The restructuring plan included workforce and overhead reduction and the termination of certain

unprofitable strategic agreements and customer relationships. All charges discussed below were recorded as operating expenses in the statement of operations, except $2,201 recorded during 2001, which was classified as cost of revenue.

Restructuring

Workforce reduction

The restructuring plan contemplated the termination of approximately 230 employees across all business functions, of which 223 were terminated as of December 31, 2002. As part of the restructuring charge, Allscripts recorded a workforce reduction charge in 2001 of $3,317 consisting primarily of severance and related benefits, which will be paid out over time. During 2002, an additional charge of $186 was recorded to satisfy the estimated remaining obligations as part of the workforce reduction.

Termination of strategic agreements

Allscripts recorded a charge of $1,053 in 2001 related to the termination of certain agreements and non-cancelable leases that were originally expected to increase product distribution and enhance product offerings. The charge included estimated payments for the early termination of these agreements, all of which have been terminated, except the lease agreements, which will expire through January 2006.

Other Charges

Termination of unprofitable customer contracts

Allscripts recorded a charge in 2001 of $4,266 related to the termination of unprofitable customer contracts where system utilization was low. The charge relates to the reduction of the carrying value of receivables to their expected realizable value and the costs for disposition of assets relating to these sites resulting from terminating the customer relationship.

Executive departure

Allscripts recorded a charge in 2002 of $414 for severance costs in connection with the departure of the former chief financial officer.

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

	Activity During the Year Ended December 31, 2001				Activity During the Year Ended December 31, 2002			
	Initial Charge	**Reclassification/ Asset Write-offs**	**Cash Payments**	**Balance at Dec. 31, 2001**	**Accrual**	**Write-offs**	**Cash Payments**	**Balance at Dec. 31, 2002**
Restructuring								
Workforce reduction	$ 3,317	$ —	$ (1,624)	$ 1,693	$ 186	$ —	$ (1,400)	$ 479
Termination of agreements	1,053	—	(395)	658	—	—	(347)	311
Subtotal	4,370	—	(2,019)	2,351	186	—	(1,747)	790
Other Charges								
Termination of unprofitable customer contracts	4,266	3,526	(100)	640	—	(640)	—	—
Executive departure	—	—	—	—	414	—	(64)	350
Total	$ 8,636	$ 3,526	$ (2,119)	$ 2,991	$ 600	$ (640)	$ (1,811)	$ 1,140

At December 31, 2001, Allscripts reclassified reserves of $1,512 to a contra asset account in accounts receivable. The entire reserve at December 31, 2001 was utilized during 2002.

7. Income Taxes

There was no current or deferred federal or state income tax provision for the years ended December 31, 2002 and 2000. For the year ended December 31, 2001, there was an income tax benefit of $48,544 that was related to the reversal of deferred taxes associated with non-deductible intangible assets and was comprised of federal and state income taxes of $42,406 and $6,138, respectively.

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

	2002	2001	2000
U.S. federal statutory tax rate	(34.0)%	(34.0)%	(34.0)%
Items affecting federal income tax rate:			
State taxes, net of federal benefit	(4.1)	(0.8)	—
Asset impairment	—	16.5	—
Amortization of nondeductible goodwill	—	3.2	11.9
Acquired in-process research and development	—	0.2	8.1
Expired net operating loss	5.7	—	—
Other, net	(0.4)	—	1.2

Valuation allowance	32.8	4.5	12.8
Effective income tax rate	—%	(10.4)%	—%

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

	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	$ 56,818	$ 49,183
Allowance for doubtful accounts	1,510	2,373
Restructuring	444	1,165
Fixed assets	1,511	749
Inventory	196	644
Deferred compensation	—	407
Goodwill amortization	147	206
Acquisition costs	168	186
Accrued expenses	—	17
Capital loss carryforwards	248	390
Other	59	96
Total deferred tax assets	61,101	55,416
Less: valuation allowance	(58,293)	(53,293)
Net deferred tax assets	2,808	2,123
Deferred tax liabilities:		
Acquired intangibles	1,582	1,863
Software development costs	1,042	76
Unrealized gains on marketable securities	184	184
Total deferred tax liabilities	2,808	2,123
Net deferred tax assets (liabilities)	$ —	$ —

The valuation allowance as of December 31, 2002 was $58,293. The net change in the total valuation allowance for the years ended December 31, 2002 and 2001 was an increase of $5,000 and $38,290, respectively. The increase in valuation allowance in 2001 included an increase attributable to purchase accounting adjustments affecting net deferred tax assets of $17,165.

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

At December 31, 2002, Allscripts had operating loss carryforwards available for federal income tax reporting purposes of approximately $145,873. The operating loss carryforwards expire between 2003 and 2022. Allscripts' ability to utilize these operating loss carryforwards to offset future taxable income is dependent on a variety of factors, including possible limitations pursuant to Internal Revenue Code Section (IRC) 382. IRC 382 imposes an annual limitation on the future utilization of operating loss carryforwards due to changes in ownership resulting from the issuance of common stock, stock options, warrants and convertible preferred stock. At December 31, 2002, Allscripts had a capital loss carryforward of $636 which expires in 2006.

The source of Allscripts' losses before income tax benefit is entirely derived from domestic sources.

8. Common Stock

During March 2002, Allscripts sold a strategic partner 379 shares of Allscripts common stock at an average fair market value for the

15 days preceding the transaction date for a purchase price of $1,982, net of related expenses of $18.

During March 2000, Allscripts completed a public offering of 1,452 shares of its common stock, at an offering price of $73.00 per share. The public offering resulted in gross proceeds of $105,996, $5,561 of which was applied to the underwriting discount and approximately $669 of which was applied to related offering expenses. The remaining net proceeds of approximately $99,766 were invested in interest-bearing, investment grade securities.

During February 2000, Allscripts sold IMS Health Incorporated 215 shares of Allscripts common stock for a purchase price of $9,983, net of related expenses of $17.

9. Stock Option Plans

At December 31, 2002, options to purchase 8,393 shares of common stock were authorized under Allscripts' Amended and Restated 1993 Stock Incentive Plan ("1993 Plan"). The exercise price for shares under this plan is determined by Allscripts' Board of Directors at the date of grant. All options must be exercised within ten years of the date of grant. The plan provides for exercise of options by payment of cash or surrender of common stock. Options vest on various schedules, primarily on a straight-line basis over three and four year periods from the date of grant, and in certain circumstances upon a change in control. During 2002, shareholders approved an increase of 1,000 shares of common stock to be available for issuance under the 1993 Plan. At December 31, 2002, Allscripts had reserved 4,327 shares of common stock for issuance upon exercise of outstanding options and 2,015 shares of common stock were available for future issuance under the 1993 Plan.

In January 2001, the Board of Directors approved the Allscripts Healthcare Solutions, Inc. 2001 Nonstatutory Stock Option Plan ("2001 Plan"). The plan provides for the issuance of up to 3,000 options to purchase common stock. The plan is administered by the Compensation Committee of the Board of Directors. The plan covers employees of Allscripts or its affiliates (excluding, however, any employee who is also serving as an officer or director of Allscripts or an affiliate) designated by the Board or the Compensation Committee as being eligible under the plan and non-employee consultants or contractors. The exercise price, term and vesting period of options issued under this plan are determined by the Compensation Committee at the time of grant. During 2002, the Board of Directors approved an increase of 1,000 shares of common stock to be available for issuance under the 2001 Plan. At December 31, 2002, Allscripts had reserved 2,501 shares of common stock for issuance upon exercise of outstanding options and 498 shares of common stock were available for future issuance under the 2001 Plan.

In conjunction with the acquisition of ChannelHealth, Inc., in January 2001, Allscripts Healthcare Solutions acquired the ChannelHealth, Inc. 1999 Stock Option Plan ("1999 Plan"). Options granted under the plan as of the date of acquisition were converted to Allscripts options. No further awards will be made under this plan. At December 31, 2002, Allscripts had reserved 405 shares of common stock for issuance upon exercise of outstanding options and no shares of common stock were available for future issuance under the 1999 Plan.

Total stock-based compensation expense included in selling, general and administrative expenses related to options issued to employees for the years ended 2002, 2001 and 2000 was $326, $496 and $535, respectively.

Had Allscripts elected to apply the provisions of FAS 123 regarding recognition of compensation expense to the extent of the calculated fair value of stock options granted, reported net loss and net loss attributable to common stockholders per share for the years ended would have been increased as follows:

	2002	2001	2000
Net loss, as reported	$ (15,233)	$ (418,931)	$ (57,367)
Stock-based compensation cost	18,439	16,443	9,023
Pro forma net loss	$ (33,672)	$ (435,374)	$ (66,390)
Net loss per share attributable to common stockholders—basic and diluted, as reported	$ (0.40)	$ (11.07)	$ (2.06)
Pro forma net loss per share attributable to common stockholders—basic and diluted	$ (0.88)	$ (11.50)	$ (2.38)

Under FAS 123, compensation expense representing fair value of the option grant is recognized over the vesting period using a straight-line method.

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

	2002	2001	2000
Risk-free interest rate	3.95%	4.67%	6.20%
Option life (years)	4	4	4

Volatility	123%	132%	140%
Dividend rate	—%	—%	—%

Option activity for the three years ended December 31, 2002 was as follows:

	Options Outstanding	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Balance at December 31, 1999	2,587	$ 4.10	984	$ 0.95
Options granted	2,191	$ 24.83		
Options exercised	(844)	$ 0.86		
Options forfeited	(206)	$ 13.36		
Balance at December 31, 2000.	3,728	$ 16.51	980	$ 4.54
Options granted	3,985	$ 8.84		
Options exercised	(39)	$ 0.59		
Options forfeited	(1,103)	$ 11.71		
Balance at December 31, 2001.	6,571	$ 12.76	2,033	$ 14.84
Options granted	2,597	$ 3.01		
Options exercised	(28)	$ 0.88		
Options forfeited	(1,907)	$ 17.63		
Balance at December 31, 2002.	7,233	$ 8.02	2,749	$ 11.37

For the years ended December 31, 2002, 2001 and 2000, the weighted-average fair value of options granted was $2.41, $4.75 and $22.96, respectively. Information regarding options outstanding at December 31, 2002 was as follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$ 0.06	480	6.15	$ 0.06	480	$ 0.06
$ 1.15 - $ 2.00	508	7.14	$ 1.81	177	$ 1.45
$ 2.16 - $ 3.04	494	7.93	$ 2.94	244	$ 2.87
$ 3.15 - $ 3.65	1,707	9.05	$ 3.16	11	$ 3.45
$ 4.25 - $ 5.63	1,672	8.18	$ 5.61	433	$ 5.63
$ 6.12 - $ 6.88	842	8.41	$ 6.77	261	$ 6.78
$ 11.25 - $16.59	565	6.43	$ 12.78	460	$ 12.76
$ 21.25 - $24.81	403	7.55	$ 21.33	212	$ 21.37
$ 26.74 - $34.98	396	6.89	$ 29.70	369	$ 29.72
$ 44.63 - $79.75	166	7.10	$ 45.26	102	$ 45.56
	7,233	7.92	$ 8.02	2,749	$ 11.37

In August 1999, Allscripts granted options to purchase an aggregate of 30 shares of common stock to non-employees in exchange for future services. These options have an exercise price of $12.69 per share and became fully vested as of February 3, 2000. Selling, general and administrative expenses for the year ended December 31, 2000 include $741 in expense relating to these options.

10. Commitments

Allscripts conducts its operations from leased premises and with equipment acquired under several operating leases. Total rent expense from continuing operations was approximately $940, $1,113 and $936 in 2002, 2001 and 2000, respectively.

Future minimum rental payments under operating leases are as follows:

Year Ending

	December 31,
2003	$ 963
2004	944
2005	980
2006	826
2007	833
2008 and thereafter	1,315
Total future minimum lease payments	$ 5,861

Allscripts acquired, through the Channelhealth acquisition, capital leases for equipment with a gross value of $636. Accumulated depreciation on the equipment totaled $407 as of December 31, 2002. The current and non-current portions of the capital lease liability as of December 31, 2002 were $202 and $0, respectively.

Allscripts has a commitment to a strategic partner to expend $350 in certain marketing-related activities during 2003.

11. Savings Plan

Effective January 1, 1993, employees of Allscripts who meet certain eligibility requirements can participate in Allscripts' 401(k) Savings and Investment Plan. Under the plan, Allscripts may, at its discretion, match the employee contributions. Allscripts recorded expenses from continuing operations related to its matching contributions in 2002, 2001, and 2000 of $424, $578, and $184, respectively.

12. Business Segments

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

Allscripts currently organizes its business around groups of similar products, which results in three segments being reported: prepackaged medications; software and related services; and information services. The prepackaged medications segment derives its revenue from the repackaging, sale, and distribution of medications and medical supplies. The software and related services segment derives its revenue from the sale and service of software that provides point-of-care decision support solutions and the resale of related hardware. The information services segment primarily derives its revenue from the sale of interactive physician education sessions. All corporate operating expenses are allocated to each

reportable segment, using a reasonable basis for each expense. Allscripts does not allocate interest income, interest expense, other income or income tax benefit to its operating segments.

Allscripts allocates depreciation and amortization to each segment, but does not allocate assets to each segment. Consequently, Allscripts does not report its assets by segment.

	2002	2001	2000
Revenue:			
Prepackaged medications	$ 49,298	$ 49,672	$ 41,567
Software and related services	19,921	17,093	8,424
Information services	9,583	4,152	4,992
Total revenue	$ 78,802	$ 70,917	$ 54,983
Depreciation and amortization:			
Prepackaged medications	$ 1,153	$ 3,453	$ 2,700
Software and related services	4,149	63,514	24,028
Information services	256	1,043	1,904
Total depreciation and amortization	$ 5,558	$ 68,010	$ 28,632
Profit (loss) from continuing operations:			
Prepackaged medications	$ 2,071	$ (10,147)	$ (556)

Software and related services	(20,814)	(459,594)	(65,351)
Information services	1,062	(3,048)	(2,602)
Loss from continuing operations	(17,681)	(472,789)	(68,509)
Net interest and other income	2,448	5,314	6,706
Loss from continuing operations before income taxes	$ (15,233)	$ (467,475)	$ (61,803)

13. Discontinued Operations

On March 18, 1999, Allscripts signed a definitive agreement to sell certain assets of its pharmacy benefit management operation to Pharmacare Management Services, Inc., Pharmacare Direct, Inc., and Procare Pharmacy, Inc. The sale closed on March 31, 1999. The aggregate purchase price was $15,400, payable in the form of an up-front payment at closing of $7,000 and a contingent payment of up to $8,400 payable within 10 business days after the first anniversary of the closing date. Additionally, the buyers purchased the inventory at Allscripts' net cost, approximately $500, while Allscripts retained the remaining working capital. The contingent payment was based upon the number of prescription fillings (including original fillings and subsequent refills) for the one-year period following the closing. In May 2000, Allscripts received payment of $4,353, net of related expenses, as final payment of the contingent consideration. This amount has been reported as a separate line item on the Consolidated Statement of Operations under the caption "Gain from sale of discontinued operations."

14. Supplemental Cash Flow Information

	2002	2001	2000
Interest paid	$ 50	$ 49	$ —
Income taxes paid	—	—	—
Noncash investing and financing activities:			
In connection with the acquisition of ChannelHealth, Inc., issuance of 8,593 shares of common stock valued at an aggregate amount of approximately $218,400 and issuance of common stock replacement options with a fair value of approximately $7,600 in exchange for all outstanding common stock of ChannelHealth, Inc.	—	226,000	—
In connection with the acquisition of MasterChart, Inc., issuance of 1,618 shares of common stock valued at an aggregate amount of approximately $127,400 and $5,000 in cash, in exchange for all outstanding common stock of MasterChart, Inc.	—	—	127,400
In connection with the acquisition of Medifor, Inc., issuance of 936 shares of common stock valued at an aggregate amount of approximately $34,400 and issuance of 143 common stock option replacements of Medifor common stock options with a fair value of approximately $4,200, in exchange for all outstanding common and preferred A and B stock of Medifor	—	—	38,600
In connection with other 2000 acquisitions, issuance of 88 shares of common stock valued at an aggregate amount of approximately $3,000 and $8,000 in cash in exchange for net tangible assets of $274	—	—	3,000

15. Related Party Transactions

As a result of Allscripts' acquisition of Channelhealth from IDX Systems Corporation (IDX), IDX owns approximately 19.5% of the common stock of Allscripts at December 31, 2002. In addition, the Chief Executive Officer of IDX is one of Allscripts' directors. As part of a 10-year strategic alliance agreement beginning on January 9, 2001, Allscripts is obligated to pay IDX a percentage of Allscripts' revenue related to IDX customers. During 2002 and 2001, Allscripts paid IDX $894 and $748, respectively, pursuant to this agreement. In addition, Allscripts leases office space from IDX. During 2002 and 2001, Allscripts paid $514 and $492, respectively, to IDX for the lease of the office space and use of the facility's infrastructure. At December 31, 2002, Allscripts had accounts payable of $583 due to IDX. During 2002, IDX paid Allscripts $125 to satisfy a guarantee pursuant to the Channelhealth acquisition agreement and $676 related to marketing sponsorships and miscellaneous expense reimbursements.

One of Allscripts' directors has been a partner in the law firm of Akin, Gump, Strauss, Hauer and Feld, LLP since June 2000, and was a partner in the law firm of Green, Stewart, Farber & Anderson, P.C., through June 2000. Both firms were retained by Allscripts to provide legal services. Expenditures related to services provided by these law firms were $14, $164 and $55 in 2002, 2001 and 2000, respectively.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULE II

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

Under date of March 28, 2003, we reported on the consolidated balance sheets of Allscripts Healthcare Solutions, Inc. and subsidiary (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule of valuation and qualifying accounts. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statement schedule based on our audits.

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

/s/ KPMG LLP

Chicago, Illinois
March 28, 2003

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

Schedule II

	Beginning Balance	Charged to Expense	Deductions	Ending Balance
Allowance for accounts receivable				
Year ended December 31, 2002	$ 6,203	896	(3,223)	$ 3,876
Year ended December 31, 2001	$ 4,384	2,506	(687)	$ 6,203
Year ended December 31, 2000	$ 3,743	980	(339)	$ 4,384

	Beginning Balance	Charged to Expense	Adjustments	Ending Balance
Valuation allowance for deferred tax assets				
Year ended December 31, 2002	$ 53,293	5,000	—	$ 58,293
Year ended December 31, 2001	$ 15,003	21,125	17,165 (1)	$ 53,293
Year ended December 31, 2000	$ 19,638	7,338	(11,973)(2)	$ 15,003

(1) Adjustment related to net deferred tax assets established in connection with acquisitions.

(2) Adjustment related to net deferred tax liabilities established in connection with acquisitions.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding directors, executive officers and other key employees is included under the captions "Election of Directors" and "Executive Officers" in Allscripts' proxy statement for the 2003 Annual Meeting of Stockholders and is incorporated by reference herein.

Information regarding Section 16(a) reporting compliance is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in Allscripts' proxy statement for the 2003 Annual Meeting of Stockholders and is incorporated by reference herein.

Item 11. Executive Compensation

Information regarding executive and director compensation is included under the captions "Executive Compensation" and "Director Compensation" in Allscripts' proxy statement for the 2003 Annual Meeting of Stockholders and is incorporated by reference herein.

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

Information regarding security ownership is included under the caption "Ownership of Allscripts Common Stock" in Allscripts' proxy statement for the 2003 Annual Meeting of Stockholders and is incorporated by reference herein.

Information regarding securities authorized for issuance under equity compensation plans is included under the caption "Equity Compensation Plan Information" in Allscripts' proxy statement for the 2003 Annual Meeting of Stockholders and is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related party transactions is included under the caption "Certain Relationships and Related Party Transactions" in Allscripts' proxy statement for the 2003 Annual Meeting of Stockholders and is incorporated by reference herein.

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls

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

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements

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

(a)(2) Financial Statement Schedules

(a)(3) List of Exhibits

See Index to Exhibits

(b) Reports on Form 8-K

Allscripts filed a report on Form 8-K dated October 9, 2002 in connection with the announcement of its hiring of a new Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 31, 2003.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

By: /s/ GLEN E. TULLMAN

Glen E. Tullman
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 31, 2003 by the following persons on behalf of the Registrant in the capacities indicated.

Signature	Title
/s/ GLEN E. TULLMAN Glen E. Tullman	Chairman, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ WILLIAM J. DAVIS William J. Davis	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ BERNARD GOLDSTEIN Bernard Goldstein	Director
/s/ PHILIP D. GREEN Philip D. Green	Director
/s/ M. FAZLE HUSAIN M. Fazle Husain	Director
/s/ MICHAEL J. KLUGER Michael J. Kluger	Director
/s/ EDWARD M. PHILIP Edward M. Philip	Director
/s/ RICHARD E. TARRANT Richard E. Tarrant	Director

Certification of Chief Executive Officer

I, Glen E. Tullman, certify that:

1. I have reviewed this annual report on Form 10-K of Allscripts Healthcare Solutions, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—14 and 15d—14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ GLEN E. TULLMAN

Chief Executive Officer

Certification of Chief Financial Officer

I, William J. Davis, certify that:

1. I have reviewed this annual report on Form 10-K of Allscripts Healthcare Solutions, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—14 and 15d—14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

Date: March 31, 2003

/s/ WILLIAM J. DAVIS

Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description	Reference
2.1	Agreement and Plan of Merger, dated as of March 13, 2000, among Allscripts, Inc., MC Acquisition Corp., MasterChart, Inc. and certain shareholders of MasterChart, Inc., together with a list of exhibits and schedules thereto. Such exhibits and schedules are not filed, but the Registrant undertakes to furnish a copy of any such exhibit or schedule to the Securities and Exchange Commission upon request.	Incorporated herein by reference from the Allscripts, Inc. Current Report on Form 8-K filed on May 24, 2000, as amended on July 24, 2000 and July 25, 2000
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of May 9, 2000, by and among Allscripts Inc., MC Acquisition Corp., MasterChart, Inc. and certain shareholders of MasterChart, Inc.	Incorporated herein by reference from the Allscripts, Inc. Current Report on Form 8-K filed on May 24, 2000, as amended on July 24, 2000 and July 25, 2000
2.3	Agreement and Plan of Merger, dated as of April 12, 2000, among Allscripts, Inc., WebDoc Acquisition Corp., Medifor, Inc. and certain shareholders of Medifor, Inc., together with a list of exhibits and schedules thereto. Such exhibits and schedules are not filed, but the Registrant undertakes to furnish a copy of any such exhibit or schedule to the Securities and Exchange Commission upon request.	Incorporated herein by reference from the Allscripts, Inc. Current Report on Form 8-K filed on May 31, 2000, as amended on July 25, 2000
2.4	Agreement and Plan of Merger, dated as of July 13, 2000, by and among Allscripts Holding, Inc., Allscripts, Inc., Bursar Acquisition, Inc., Bursar Acquisition No. 2, Inc., IDX Systems Corporation and Channelhealth Incorporated.	Incorporated herein by reference from the Allscripts, Inc. Current Report on Form 8-K filed on July 27, 2000
2.5	First Amendment to Agreement and Plan of Merger, entered into as of November 29, 2000, by and among Allscripts Holding, Inc., Allscripts, Inc., Bursar Acquisition, Inc., Bursar Acquisition No. 2, Inc., IDX Systems	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)

	Corporation and Channelhealth Incorporated.	
3.1	Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)

3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
3.4	Bylaws of Allscripts Healthcare Solutions, Inc. (formerly named Allscripts Holding, Inc.).	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
10.1†	Amended and Restated 1993 Stock Incentive Plan, as amended May 2, 2002.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
10.2	Twelfth Restated Registration Agreement dated as of June 18, 1999, by and among Allscripts, Inc., those Holders of Allscripts, Inc. Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred, Series F Preferred and Series G Preferred listed in Schedule I attached thereto, the Holders of the Extension Guaranty Warrants listed in Schedule II thereto, the Holders of the 1996 Extension Guaranty Warrants listed in Schedule II thereto, those Holders of Common listed in Schedule III thereto, the Holders of Series H Warrants and H Unit Common listed in Schedule IV thereto, the Holders of Extension Series H Warrants listed in Schedule IV thereto, the Holders of I Unit Common listed in Schedule V thereto and the Holders of Debenture Warrants listed in Schedule VI thereto.	Incorporated herein by reference from the Allscripts, Inc. Registration Statement on Form S-1 as part of Amendment No. 2 filed on June 29, 1999 (SEC file no. 333-78431)
10.3	Industrial Building Lease dated April 30, 1997 between G2 Limited Partnership and Allscripts, Inc.	Incorporated herein by reference from the Allscripts, Inc. Registration Statement on Form S-1 filed on May 14, 1999 (SEC file no. 333-78431)

10.4	Lease Agreement between American National	Incorporated herein by reference from the

	Bank and Trust Company of Chicago, as Trustee, and Allscripts, Inc. dated September 1996, as amended December 31, 1999.	Allscripts, Inc. Registration Statement on Form S-1 as part of Amendment No. 1 filed on February 18, 2000 (SEC file no. 333-95521)
10.5	Second Amendment, dated September 30, 2002, to Lease Agreement between LaSalle Bank National Association (previously American National Bank and Trust Company of Chicago), as Trustee, and Allscripts, Inc. dated September 1996, as amended December 31, 1999.	
10.6†	Employment Agreement dated as of July 8, 2002 between Allscripts Healthcare Solutions, Inc. and Glen E. Tullman.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.7†	Employment Agreement dated as of July 8, 2002 between Allscripts Healthcare Solutions, Inc. and Lee A. Shapiro.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.8†	Employment Agreement dated as of October 8, 2002 between Allscripts Healthcare Solutions, Inc. and William J. Davis.	
10.9†	Employment Agreement dated as of July 8, 2002 between Allscripts Healthcare Solutions, Inc. and Joseph E. Carey.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.10†	Employment Agreement dated as of July 8, 2002 between Allscripts Healthcare Solutions, Inc. and Scott Leisher.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.11†	Separation Agreement and General Release, dated as of September 13, 2002 between Allscripts Healthcare Solutions, Inc. and David B. Mullen.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
10.12	Form of TouchWorks Master License Agreement.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.13	Stock Rights and Restrictions Agreement by and between Allscripts Healthcare Solutions, Inc. and IDX Systems Corporation dated as of January 8, 2001.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001

10.14	Strategic Alliance Agreement by and between Allscripts Healthcare Solutions, Inc. and IDX Systems Corporation dated as of January 8, 2001.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.15	Asset Purchase Agreement, dated as of July 13, 2000, by and between Channelhealth Incorporated and IDX Systems Corporation.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Registration Statement on Form S-4 as part of Amendment No. 1 filed on December 7, 2000 (SEC file no. 333-49568)
10.16	Amended and Restated Cross License and	Incorporated herein by reference from the

	Software Maintenance Agreement by and between IDX Systems Corporation and Channelhealth Incorporated dated January 8, 2001.	Allscripts Healthcare Solutions, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.17*	Pharmacy Services Prime Vendor Agreement for Allscripts Healthcare Solutions, Inc., dated as of February 1, 2002 between Allscripts Healthcare Solutions, Inc. and Bergen Bruswig Drug Co.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
10.18	First Amendment, dated July 31, 2002, among Allscripts Healthcare Solutions, Inc., Bergen Brunswig Drug Company doing business as Amerisource Bergen and Allscripts, Inc., to Pharmacy Services Prime Vendor Agreeement, dated as of February 1, 2002, between Allscripts Healthcare Solutions, Inc. and Bergen Brunswig Drug Company doing business as Amerisource Bergen.	Incorporated herein by reference from the Allscripts Healthcare Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
10.19	Allscripts Healthcare Solutions, Inc. 2001 Non-Statutory Stock Option Plan.	
21.1	Subsidiaries	
23.1	Consent of KPMG LLP	
99.1	Certification of Chief Executive Officer and Chief Financial Officer	

† Indicates management contract or compensatory plan.

* Portions of this exhibit have been omitted pursuant to the Commission's grant of confidential treatment.

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.5

CONCEPTS II BUILDING

SECOND AMENDMENT

TO

LEASE AGREEMENT

between

LASALLE BANK NATIONAL ASSOCIATION
as Trustee under Trust Agreement dated May 15, 1994,
and known as Trust Number MP-012430

LANDLORD

and

ALLSCRIPTS, INC.

TENANT

AMENDED LEASE SUMMARY SHEET

DATE OF THIS AMENDMENT:	September 30th, 2002
DATE OF FIRST AMENDMENT:	December 31, 1999
DATE OF LEASE:	October 15, 1996
TENANT:	Allscripts, Inc.
BUILDING:	Concepts II, 2401 Commerce Drive Libertyville, Illinois 60048
LEASED PREMISES:	Rentable Square Feet - 79,715 square feet
COMMENCEMENT DATE:	April 1, 1997
TERMINATION DATE:	June 30, 2009
FIXED RENT FOR LEASED PREMISES:	From July 1, 2002 to June 30, 2009 7/1/02 to 6/30/03 $56,464.79 per month 7/1/03 to 6/30/04 $58,125.52 per month 7/1/04 to 6/30/05 $59,786.25 per month 7/1/05 to 6/30/06 $63,107.71 per month 7/1/06 to 6/30/07 $66,429.17 per month 7/1/07 to 6/30/08 $69,750.63 per month 7/1/08 to 6/30/09 $74,732.81 per month
TAXES & OPERATING EXPENSES:	Tenant pays 100%, subject to Article IV J of the Second Amendment
ELECTRICITY AND GAS FOR HVAC:	Separately Metered to Tenant
ELECTRICITY FOR LIGHTING & OUTLETS:	Separately Metered to Tenant
PERMITTED USES:	Warehousing, Industrial and Offices Uses
SECURITY DEPOSIT:	None
CONTRACTION RIGHT:	Tenant has the right between July 1, 2004 and

December 31, 2004, with 9 months notice, to contract the Leased Premises by up to 30,000 square feet upon payment of a contraction fee of $6.333 per square foot of contracted space and a $.65 per square foot increase of New Fixed Rent on the remaining Leased Premises.

The Amended Lease Summary is for information purposes only. In the event any information in this Amended Lease Summary is in conflict with any provision in the Lease As Amended, the Lease As Amended shall prevail.

TABLE OF ARTICLES

SECOND AMENDMENT TO LEASE AGREEMENT

THIS SECOND AMENDMENT TO LEASE AGREEMENT (the "Second Amendment"), is made and entered into this 30th day of September 2002, by and between LASALLE BANK NATIONAL ASSOCIATION (previously American National Bank and Trust Company of Chicago), as Trustee under Trust Agreement dated May 15, 1994, and known as Trust Number MP-012430 ("Landlord"), and ALLSCRIPTS, INC., a Delaware corporation ("Tenant"), and hereby amends a Lease Agreement entered into between the parties on October 15, 1996 (the "Lease Agreement") and amended on December 31, 1999 (the "First Amendment") (the Lease Agreement and the First Amendment are collectively referred to as the "Lease") (this Second Amendment and the Lease are collectively referred to as the "Lease As Amended").

WHEREAS, Landlord is the owner of a single story industrial building totaling approximately 79,715 square feet (the "Building"). The Building is commonly known as Concepts II, and has a common address of 2401 Commerce Drive, Libertyville, Illinois 60048, and is located in the industrial park known as Lincoln Commerce Center;

WHEREAS, the Tenant is leasing from the Landlord the entire Building (the "Leased Premises") pursuant to the Lease;

WHEREAS, the Lease Term expires as of June 30, 2004 and the parties desire to extend the Term for an additional period of five (5) years ending on June 30, 2009;

WHEREAS, the parties have agreed to reduce the Fixed Rent for the remaining Term from July 1, 2002 to June 30, 2004; and

WHEREAS, the parties have agreed the Tenant will have the right to reduce the square footage of the Leased Premises by up to 30,000 square feet at a certain time during the Term and upon the payment of a sum of money and additional New Fixed Rent for the remaining Leased Premises.

NOW THEREFORE it is agreed to amend the Lease as follows:

ARTICLE I
DEFINED TERMS

The Lease provides for various special references and/or definitions of certain terms or words. All such references and/or definitions, provided they are not in conflict with those terms and words defined herein, are incorporated in this Second Amendment.

ARTICLE II
EXTENDED TERM

Landlord does hereby lease and demise to the Tenant, and Tenant accepts from Landlord, the Leased Premises for the additional term of five (5) years commencing on July 1, 2004 and terminating on June 30, 2009 (the "Extended Term"). The Termination Date is redefined as June 30, 2009.

ARTICLE III
NEW FIXED RENT AND NEW FIXED RENT DURING THE EXTENDED TERM

Effective as of July 1, 2002, Article III Restated Fixed Rent of the First Amendment is hereby voided and held for naught, and the following substituted therefor:

Subject to the terms and conditions of the Lease As Amended and in consideration hereof, and for the period of the Term (including the Extended Term) from July 1, 2002 to June 30, 2009, Tenant agrees to pay the Landlord the sum of Five Million,
Three Hundred Eighty Thousand,

Seven Hundred Sixty Two and 56/100 Dollars ($5,380,762.56) ("New Fixed Rent"), in Eighty Four (84) monthly installments payable in advance on the first day of each month as follows:

A. For the Twelve (12) month period from July 1, 2002 to June 30, 2003 inclusive - Twelve (12) monthly installments Fifty Six Thousand Four Hundred and Sixty Four and 79/100 Dollars ($56,464.79) ($8.50 per square foot);

B. For the Twelve (12) month period from July 1, 2003 to June 30, 2004 inclusive - Twelve (12) monthly installments of Fifty Eight Thousand One Hundred and Twenty Five and 52/100 Dollars ($58,125.52) ($8.75 per square foot);

C. For the Twelve (12) month period from July 1, 2004 to June 30, 2005 inclusive - Twelve (12) monthly installments of Fifty Nine Thousand Seven Hundred and Eighty Six and 25/100 Dollars ($59,786.25) ($9.00 per square foot);

D. For the Twelve (12) month period from July 1, 2005 to June 30, 2006 inclusive - Twelve (12) monthly installments of Sixty Three Thousand One Hundred and Seven and 71/100 Dollars ($63,107.71) ($9.50 per square foot);

E. For the Twelve (12) month period from July 1, 2006 to June 30, 2007 inclusive - Twelve (12) monthly installments of Sixty Six Thousand Four Hundred and Twenty Nine and 17/100 Dollars ($66,429.17) ($10.00 per square foot);

F. For the Twelve (12) month period from July 1, 2007 to June 30, 2008 inclusive - Twelve (12) monthly installments of Sixty Nine Thousand Seven Hundred and Fifty and 63/100 Dollars ($69,750.63) ($10.50 per square foot); and

G. For the Twelve (12) month period from July 1, 2008 to June 30, 2009 inclusive - Twelve (12) monthly installments of Seventy Four Thousand Seven Hundred and Thirty Two and 81/100 Dollars ($74,732.81) ($11.25 per square foot).

Net Fixed Rent and Additional Rent and/or other payments reserved and required under the Lease As Amended are collectively referred to as the "Rental". Unless as otherwise specifically provided or hereafter otherwise designate, all monthly installments of Rental shall be paid in advance on the first day of each and every calendar month of the Term to Landlord's agent, Lincoln Atrium Management Company, 59 West Seegers Road, Arlington Heights, Illinois 60005, or to such other agent or at such other place as Landlord may from time to time hereafter designated in writing. All Rental shall be paid by Tenant to Landlord without notice or demand, and without abatement, deduction, counterclaim or set off of any kind, other than as described in Article VI below.

ARTICLE IV
CONTRACTION OF LEASED PREMISES

Provided the Tenant has not committed an uncured Event of Default of the Lease As Amended, commencing on July 1, 2004 and ending on December 31, 2004 (the "Contraction Period"), the Tenant has the right to contract the square footage of the Leased Premises by up to 30,000 square feet, in accordance with the following terms and provisions:

A. The portion of the Leased Premises to be vacated by the Tenant (the "Contraction Area") shall not be less than 15,000 square feet nor more than 30,000 square feet; it shall be completely contiguous; and it shall have direct, appropriate and adequate egress and ingress, in the reasonable judgment of the Landlord, to the loading dock area, the loading dock shipping and receiving area, and to one or more entrances. However the exact location and configuration of the Contraction Area shall be further subject to the mutual agreement and reasonable consent of both Landlord and Tenant. Both Landlord and Tenant agree they will use their best efforts to reach such a mutual agreement.

B. The Tenant must notify the Landlord, in writing, of its election to contract (the "Contraction Notice") on or before nine (9) months prior to the date of the intended contraction (the "Contraction Date"), which date shall be within the Contraction Period.

C. The Contraction Notice shall include a diagram of the Tenant's proposed Contraction Area indicating the proposed demising walls and the dimensions thereof. Within ten (10) days after the Landlord and the Tenant have agreed as to the Contraction Area, the Tenant shall tender to the Landlord a cashier's check, payable to the agent of the Landlord, in an amount equal to the sum of $6.333 multiplied by the square footage of the Contraction Area (the "Contraction Fee").

D. The Contraction Area square footage shall be the sum of (a) the square footage calculated by measuring the Contraction Area form the outside line of the outside walls and to the middle of the new demising walls with the remaining Leased Premises, plus (b) a prorata share of the shipping and receiving areas and the common trash, electrical, telephone and sprinkler rooms (the "Common Area") calculated by multiplying 2,866 square feet (the square footage of the Common Area) by a fraction, the numerator of which is the square footage of the area described in clause (a) above and the denominator of which is 76,849 (79,715 less 2,866).

E. On the Contraction Date, the Tenant shall vacate the Contraction Area and surrender same in good condition and repair, remove all of its personal property, and leave it in a broom clean condition.

G. On the Contraction Date and for the remainder of the Term the square footage of the remaining Leased Premises shall equal 79,715 minus the square footage of the Contraction Area (as calculated in accordance with Article IV D above) (the remaining Leased Premises is herein referred to as the "Reduced Leased Premises"). The Reduced Leased Premises shall be thereafter defined for the purposes of this Lease As Amended as the Leased Premises, and all references in the Lease As Amended to the words "Leased Premises" shall apply thereto.

H. On the Contraction Date and for the remainder of the Extended Term, the Tenant shall pay the square foot New Fixed Rent rates set forth in Article III C, D, E, F, and G for the periods indicated therein, increased by Sixty Five Cents ($.65) per square foot, times the square footage of the Reduced Leased Premises.

I. In the event the Tenant commits an uncured Event of Default between the date of the Contraction Notice and the Contraction Date, this right of contraction shall terminate and be of no force and effect and the Landlord shall have the right to retain the Contraction Fee and apply same to Rental then due or becoming due in the future and/or to damages resulting from said Event of Default.

J. It is understood and agreed by the Tenant that after the Contraction Date, the Common Area will be shared by the Tenant with other tenant(s) of the Building. Commencing on and after the Contraction Date, the Tenant's obligation to pay Taxes and Operating Expenses shall be reduced from 100% to a prorata share ("New Prorata Share") thereof, calculated by a fraction, the numerator of which is the square footage of the Reduced Leased Premises and the denominator is 79,715.

K. The Reduced Leased Premises, the New Fixed Rent, the New Prorata Share, and the Contraction Date shall all be codified in an amendment to this Lease As Amended and executed by the Landlord and Tenant.

ARTICLE V
OPTION TO RENEW

Article XXII of the Lease Agreement and Article VII of the First Amendment (relating to an option to renew the Term) are hereby voided and held for naught and the following substituted therefor:

Provided the Tenant has not committed an uncured Event of Default, the Tenant shall have the right to renew this Lease and lease the Leased Premises for one (1) five (5) year period commencing July 1, 2009 ("Second Extended Term"), upon the same terms and conditions set forth herein with the following exceptions:

A. The yearly New Fixed Rent to be paid by the Tenant during the first year of the Second Extended Term shall be the greater of the following:

(a) Twelve Dollars ($12) per square foot or Twelve and 65/100 Dollars ($12.65) per square foot if the Tenant had elected to contract as provided in Article IV, or

(b) Eight and 50/100 Dollars ($8.50) per square foot, plus that sum determined by multiplying the percentage increase of the Price Index between the months of July 2002 and June 2009 times Eight and 50/100 Dollars ($8.50) per square foot.

B. The New Fixed Rent during the second (2nd) year of the Second Extended Term, and in each year thereafter shall be increased by two and one-half Percent (2.5%) of the preceding year's New Fixed Rent.

C. The word "year" as used in this Article shall mean the periods from July 1 to June 30.

D. The Price Index means the consumer price index published by the Bureau of Labor Statistics of the United States Department of Labor, U.S. City Average, All Items and Major Group Figures for Urban Wage Earners and Clerical Workers (most then current). If a substantial change is made in the manner of computing the Price Index, then the Price Index will be adjusted to the figures that would have been used had the manner of computing the Price Index been the same as that in effect on July 2002. If the Price Index is not available, a reliable governmental or other nonpartisan publication evaluating the information used in determining the consumer price index shall be applied for the purposes of this Article V.

E. To exercise this renewal option, the Tenant must give the Landlord written Notice on or before July 1, 2008.

F. Upon the exercise of this renewal option, the word Term as defined in this Lease As Amended shall also apply to the Second Extended Term, and the term Termination Date shall be redefined as the last day of the Second Extended Term.

G. All other terms and conditions of this Lease As Amended shall be in full force and effect during the Second Extended Term, including the Tenant's obligation to pay Additional Rent.

H. This renewal option shall be exercised only as to all the Leased Premises leased by the Tenant at the time of the Notice.

ARTICLE VI
REFUND OF OVERPAYMENTS

The Landlord acknowledges that the Tenant has made overpayments of the Rental for the months of July, August and September of 2002. The total of said overpayments shall apply as a credit to the Rental due for the month of October 2002.

ARTICLE VII
REMAINING PROVISIONS OF LEASE

The Estoppel Certificate (Exhibit B of the First Amendment) is hereby restated as set forth in Exhibit A. All other provisions, terms and conditions of the Lease, not in conflict with the provisions, terms and conditions of this Second Amendment, shall remain in full force and effect.

ARTICLE VIII
TRUSTEE'S AUTHORITY AND EXCULPATORY

LASALLE BANK NATIONAL ASSOCIATION hereby represents and warrants that it is fully empowered and authorized to execute this Second Amendment pursuant to the terms and conditions contained herein pursuant to the Trust Agreement dated May 15, 1994, and known as Trust Number MP-012430, and that such terms and conditions do not violate the provisions of such Trust. It is expressly understood and agreed by and between the parties hereto, anything herein to the contrary notwithstanding, that each and all of the representations, covenants, undertakings and agreements herein made on the part of the Landlord while in form purporting (except as herein otherwise expressed) to be the representations, covenants, undertakings and agreements of the Landlord are nevertheless each and every one of them, made and intended not as personal representations, covenants, undertakings and agreements by the Landlord or for the purpose or with the intention of binding the Landlord personally, but are made and/or intended for the purpose of binding only that portion of the trust property specifically leased hereunder; that this Second Amendment is executed and delivered by said Landlord not in its own right, but solely in the exercise of the powers conferred upon it as such trustee; that no duty shall rest upon Landlord to sequester the trust estate or the rents, issues and profits arising therefrom, or the proceeds arising from any sale or other disposition thereof; and that no personal liability or personal responsibility is assumed by nor shall at any time be asserted or enforceable against LASALLE BANK NATIONAL ASSOCIATION, or any of the beneficiaries under said Trust Agreement, on account of this Second Amendment and/or the Lease As Amended on account of any representations, covenants, undertakings or agreements of the Landlord in this Second Amendment and/or the Lease As Amended contained either expressed or implied; all such personal liability, if any, being expressly waived and released by the Tenant herein and by all persons claiming by, through or under said Tenant.

IN WITNESS WHEREOF, we have set our hands and seal to this Second Amendment, of six (6) pages, this page included, the day and year first above written.

LANDLORD:
LASALLE BANK NATIONAL ASSOCIATION, as
trustee as aforesaid and not personally

/s/ MARGARET O'DONNELL

Asst. Vice President

TENANT:
ALLSCRIPTS, INC., a Delaware Corporation

/s/ LEE SHAPIRO

Secretary *President*

LANDLORD'S ACKNOWLEDGMENT

STATE OF ILLINOIS
COUNTY OF COOK

I, the undersigned, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY THAT Margaret O'Donnell personally known to me to be the Asst. Vice President of LASALLE BANK NATIONAL ASSOCIATION and personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed and delivered the said instrument as said Asst. Vice President of said corporation, and caused the corporate seal of said corporation to be affixed thereto, pursuant to authority given by the Trust Agreement, dated May 15, 1994, and known as Trust No. MP-012430, and by the direction of the beneficiaries thereof, for the uses and purposes therein set forth.

Given under my hand and notarial seal this 23rd day of December 2002.

/s/ GLENN J. RICHTER

Notary Public

My commission expires 4/30/06

"OFFICIAL SEAL"
GLENN J. RICHTER
NOTARY PUBLIC STATE OF ILLINOIS
My Commission Expires 04/30/2006

TENANT'S ACKNOWLEDGMENT

STATE OF ILLINOIS
COUNTY OF LAKE

I, Tammy Whaley, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY THAT Lee Shapiro personally known to me to be the President of ALLSCRIPTS, INC., a Delaware Corporation, and , personally known to me to be the Secretary of said corporation and personally known to me to be the same persons whose names are subscribed to the foregoing instrument, appeared before me this day in person and severally acknowledged that they signed and delivered the said instrument as President and Secretary of said corporation, and caused the corporate seal to be affixed thereto, pursuant to authority given by the Board of Directors of said corporation, as their free and voluntary act and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

Given under my hand and notarial seal this 30 day of September 2002.

/s/ TAMMY WHALEY

Notary Public

My Commission expires: 4/12/06

"OFFICIAL SEAL"
TAMMY WHALEY
COMMISSION EXPIRES 04/12/06

RESTATED ESTOPPEL CERTIFICATE

The undersigned, ALLSCRIPTS, INC., a Delaware Corporation, hereby certifies that it is the Tenant under a certain Lease Agreement dated October 15, 1996, amended December 31, 1999 and September , 2002, (collectively the "Lease") with LASALLE BANK NATIONAL ASSOCIATION, as Trustee under Trust Agreement dated May 15, 1994, and known as Trust Number MP-012430, as the Landlord, which Lease leases to Tenant, 79,715 square feet of office/warehouse space ("Leased Premises") at the Concepts II Building, Libertyville, Illinois ("Building").

The Tenant hereby further certifies as to the following:

1. That the Lease is in full force and effect and has not been modified, altered, or amended;

2. That possession of the Leased Premises (79,715 square feet) had been accepted by the Tenant;

3. That the Term of the Lease commenced on April 1, 1997, and ends on June 30, 2009;

4. That the Rentable Square Feet of the Leased Premises are 79,715;

5. That the New Fixed Rent due from Tenant for the Term from July 1, 2002 to June 30, 2009, is paid in 84 Monthly Payments, as follows:

7/1/02 to 6/30/03	$56,464.79 per month
7/1/03 to 6/30/04	$58,125.52 per month
7/1/04 to 6/30/05	$59,786.25 per month
7/1/05 to 6/30/06	$63,107.71 per month
7/1/06 to 6/30/07	$66,429.17 per month
7/1/07 to 6/30/08	$69,750.63 per month
7/1/08 to 6/30/09	$74,732.81 per month

6. That the Tenant is obligated to pay 100.00% of the Taxes and Operating Expenses of the Building, as Additional Rent;

7. That the Tenant has accepted, and is in possession of, the Leased Premises; that any Tenant Improvements to the Leased Premises, required by the terms of the Lease to be made by the Landlord, have been completed to the satisfaction of the Tenant;

8. That, except as described in Article VI of the Second Amendment, there are no payments, credits, or concessions required to be made or granted by Landlord to Tenant in connection with the Lease which have not been paid or fulfilled, so that the Landlord has no obligations or liabilities with respect thereto;

9. That, except as described in Article VI of the Second Amendment, no Rental or any other charges due under the Lease have been paid more than thirty (30) days in advance of the date hereof;

10. That the Lease, the Leased Premises or any portion thereof, have not been assigned or sublet, by operation of law or otherwise;

11. That, to the best of Tenant's knowledge, (a) there has been no Event of Default or breach under the Lease, by either the Tenant or the Landlord, and (b) no event has occurred which, with the giving of Notices, or the passage of time, or both, could result in an Event of Default or breach under the Lease;

12. That the Tenant, as of the date hereof, does not have any right, charge, claim, lien, or right of set-off, under the Lease and/or against the Landlord, other than as stated in the Lease;

13. That the Lease, dated October 15, 1996, consists of 31 Pages and the following Exhibits:

Exhibit A—Legal Description
Exhibit B—Site Plan
Exhibit C—Tenant Plans
Exhibit D—Contract Prices and Estimates

Exhibit E—Protective Covenants
Exhibit F—Estoppel Certificate

The First Amendment to Lease, dated December 31, 1999, consists of 6 pages and the following Exhibits:

Exhibit A—Site Plan
Exhibit B—Restated Estoppel Certificate

The Second Amendment to Lease, dated September , 2002, consists of 6 pages and the following Exhibit:

Exhibit A—Restated Estoppel Certificate

14. That there are no agreements between the Landlord and the Tenant other than as stated and provided in the above described Lease, Lease Amendments and their respective Exhibits;

15. That the Tenant has a right to contract the Leased Premises by up to 30,000 square feet between July 1, 2004 and December 31, 2004 upon certain terms and provisions as set forth in Article IV of the Second Amendment.

16. That exceptions to the above statements 1 to 15 are set forth hereinafter (if none, state none):

17. That this certificate is being made to: and said party may rely on the truthfulness of the statements set forth herein.

This Estoppel Certificate is dated this 30th day of Sept. 2002.

TENANT:
ALLSCRIPTS, INC., a Delaware Corporation

/s/ LEE SHAPIRO

Secretary

President

EXHIBIT A

QuickLinks

Exhibit 10.8

ALLSCRIPTS, INC.
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, (this **"Agreement"**) is effective as of this 8th day of October, 2002, by and between Allscripts, Inc., a corporation organized and existing under the laws of the State of Illinois, with its principal place of business at 2401 Commerce Drive, Libertyville, Illinois 60048 (**"Company"**) and William J. Davis (**"Executive"**).

RECITALS

WHREAS, Company desires to employ Executive as its Chief Financial Officer; and

WHEREAS, Executive desires to be employed by Company in the aforesaid capacity.

NOW THEREFORE, in consideration of the foregoing premises, of the mutual agreements and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

AGREEMENT

1. Employment.

Company hereby agrees to employ Executive, and Executive hereby accepts employment, as Chief Financial Officer of Company, pursuant to the terms of this Agreement. Executive shall have the duties and responsibilities and perform such administrative and managerial services of that position as are set forth in the bylaws of Company (the **"Bylaws"**) or as shall be delegated or assigned to Executive by the Chief Executive Officer of Company (the "**CEO**") from time to time. Executive shall report to the CEO and carry out his responsibilities hereunder on a full-time basis for and on behalf of Company. Executive agrees that, during the term of this Agreement, Executive shall not act as an officer of any entity other than Company without the prior written consent of Company.

2. Effective Date and Term.

The initial term of Executive's employment by Company under this Agreement shall commence as of October 8, 2002 (the **"Effective Date"**) and shall continue in effect for a term of two (2) years, unless earlier terminated as provided herein. Thereafter, this Agreement shall automatically renew for additional and successive terms of one (1) year each, unless either Company or Executive elects not to renew this Agreement upon the expiration of the initial term or any renewal term by providing written notice of such non-renewal to the other party at least one hundred eighty (180) days prior to the expiration of the then current term. As used herein, the term **"Employment Period"** shall mean the period from the Effective Date until the termination of the Agreement **(i)** for non-renewal pursuant to this Section 2, or **(ii)** pursuant to Section 4 herein.

3. Compensation and Benefits.

In consideration for the services Executive shall render under this Agreement, Company shall provide or cause to be provided to Executive the following compensation and benefits:

3.1 ***Base Salary.*** During the Employment Period, Company shall pay to Executive an annual base salary at a rate of two hundred twenty-five thousand dollars ($225,000) per annum, subject to all appropriate federal and state withholding taxes, which base salary shall be payable in accordance with

Company's normal payroll practices and procedures. Executive's base salary shall be reviewed annually prior to the beginning of each Fiscal Year (as defined below) during the Employment Period by the CEO or the Board of Directors of Company (the **"Board"**), or a committee of the Board, and may be increased in the sole discretion of the CEO, Board, or such committee of the Board, based on Executive's performance during the preceding Fiscal Year. For purposes of this Agreement, the term **"Fiscal Year"** shall mean the fiscal year of the Company, commencing on January 1 of each year and ending on December 31. Executive's base salary, as such base salary may be increased annually hereunder, is hereinafter referred to as the **"Base Salary."**

3.2 ***Performance Bonus.*** Executive shall be eligible to receive a cash bonus with respect to each Fiscal Year (after 2002) of Company that ends during the term of this Agreement (the **"Performance Bonus"**). Payment of the Performance Bonus, if any, will be subject to the sole discretion of the CEO, Board or a committee of the Board, and the amount of any such Performance Bonus will be determined by, and based upon criteria selected by, the CEO, Board or such committee, but in no event shall be less than sixty thousand dollars ($60,000). In addition, Executive shall receive a bonus with respect to fiscal year 2002 of fifteen thousand dollars ($15,000). Bonuses are payable after completion and certification of the audited financial statements for the Fiscal Year in question.

3.3 ***Benefits.*** During the Employment Period and as otherwise provided hereunder, Executive shall be entitled to the following:

3.3.1 *Vacation.* Executive shall be entitled to fifteen (15) business days per Fiscal Year of paid vacation, such vacation time not to be cumulative (i.e., vacation time not taken in any Fiscal Year shall not be carried forward and used in any subsequent Fiscal Year).

3.3.2 *Participation in Benefit Plans.* Executive shall be entitled to health and/or dental benefits, including immediate coverage for Executive and his eligible dependents, which are generally available to Company's senior executive employees and as provided by Company in accordance with its group health insurance plan coverage. In addition, Executive shall be entitled to participate in any profit sharing plan, retirement plan, group life insurance plan or other insurance plan or medical expense plan maintained by the Company for its senior executives generally, in accordance with the general eligibility criteria therein.

3.3.3 *Physical Examination.* Executive shall be entitled to receive reimbursement for the cost of one general physical examination per twelve (12) month period during the term of the Agreement from a physician chosen by Executive in his reasonable discretion.

3.3.4 *Perquisites.* Executive shall be entitled to such other benefits and perquisites that are generally available to Company's senior executive employees and as provided in accordance with Company's plans, practices, policies and programs for senior executive employees of Company.

3.3.5 *Indemnification.* Executive shall be entitled to indemnification (including immediate advancement of all legal fees with respect to any claim for indemnification) and directors' and officers' insurance coverage, to the extent made available to other senior executives, in accordance with the Bylaws and all other applicable policies and procedures of Company.

3.4 ***Expenses.*** Company shall reimburse Executive for proper and necessary expenses incurred by Executive in the performance of his duties under this Agreement from time to time upon Executive's submission to Company of invoices of such expenses in reasonable detail and subject to all standard policies and procedures of Company with respect to such expenses.

3.5 ***Stock Awards.*** Executive shall be eligible to participate in any applicable stock bonus, stock option, or similar plan implemented by Company and generally available to its senior executive employees, including, without limitation, Company's Amended and Restated 1993 Stock Incentive Plan

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approved by the Board and Company's shareholders on or about June 7, 1999 (the **"Plan"**) for the grant of options to Executive as approved by the Board.

4. Termination of the Agreement Prior To the Expiration.

This Agreement and the Employment Period of Executive may be terminated at any time as follows (the effective date of such termination hereinafter referred to as the **"Termination Date"**):

4.1 ***Termination upon Death or Disability of Executive.***

4.1.1 This Agreement and the Employment Period shall terminate immediately upon the death of Executive. In such event, all rights of Executive and/or Executive's estate (or named beneficiary) shall cease except for the right to receive payment of the amounts set forth in Section 4.5.4 of the Agreement.

4.1.2 Company may terminate this Agreement and the Employment Period upon the disability of Executive. For purposes of this Agreement, Executive shall be deemed to be "disabled" if Executive, as a result of illness or incapacity, shall be unable to perform substantially his required duties for a period of three (3) consecutive months or for any aggregate period of three (3) months in any six (6) month period. In the event of a dispute as to whether Executive is disabled, Company may refer Executive to a licensed practicing physician of Company's choice, and Executive agrees to submit to such tests and examination as such physician shall deem appropriate to determine Executive's capacity to perform the services required to be performed by Executive hereunder. In such event, the parties hereby agree that the decision of such physician as to the disability of Executive's shall be final and binding on the parties. Any termination of the Agreement under this Section 4.1.2 shall be effected without any adverse affect on Executive's rights to receive benefits under any disability policy of Company, but shall not be treated as a termination without cause.

4.2 ***Termination by Company for Cause.*** Company may terminate this Agreement and the Employment Period for Cause (as defined herein) upon written notice to Executive, which termination shall be effective on the date specified by Company in such notice; provided however, that Executive shall have a period of ten (10) days (or such longer period not to exceed 30 days as would be reasonably required for Executive to cure such action or inaction) after the receipt of the written notice from Company to cure the particular action or inaction, to the extent a cure is possible. For purposes of this Agreement, the term **"Cause"** shall mean:

4.2.1 the willful or grossly negligent failure by Executive to perform his duties and obligations hereunder in any material respect, other than any such failure resulting from the disability of Executive;

4.2.2 Executive's conviction of a crime or offense involving the property of Company, or any crime or offense constituting a felony or involving fraud or moral turpitude; provided that, in the event that Executive is arrested or indicted for a crime or offense related to any of the foregoing, then Company may, at its option, place Executive on paid leave of absence, pending the final outcome of such arrest or indictment;

4.2.3 Executive's violation of any law, which violation is materially and demonstrably injurious to the operations or reputation of Company; or

4.2.4 Executive's material violation of any generally recognized policy of Company, Executive's refusal to follow the lawful directions of the Board, or Executive's insubordination to his supervisor.

Notwithstanding the foregoing, any notice and lapse of time period provided in this Section 4.2 shall not be required with respect to any event or circumstance which is the same or substantially the same as an event or circumstance with respect to which notice and an opportunity to cure has been given within the previous six (6) months.

4.3 ***Termination without Cause.*** Either party may terminate this Agreement and the Employment Period without cause upon thirty (30) days prior written notice to the other party. If either party elects not to renew this Agreement for any renewal period pursuant to Section 2 hereof, such election shall not constitute a termination of the Employment Period without cause.

4.4 ***Termination by Executive for Constructive Discharge.***

4.4.1 Executive may terminate this Agreement and the Employment Period, in accordance with the process set forth below, a result of a Constructive Discharge. For purposes of this Agreement **"Constructive Discharge"** shall mean:

(i) a failure of Company to meet its obligations in any material respect under this Agreement, including, but not limited to, any reduction in or failure to pay the Base Salary;

(ii) a material diminution in or other substantial adverse alteration in the nature or scope of Executive's responsibilities with Company;

(iii) Executive has been asked to relocate his principal place of business to a location that is more than fifty (50) miles from Company's offices located in Libertyville, Illinois; or

(iv) there has been a Change of Control of Company.

4.4.2 For purposes of this Agreement, a **"Change of Control"** shall mean any one of the following events:

(i) the acquisition by any person or group of beneficial ownership of stock possessing more than thirty percent (30%) of the outstanding securities of Company which generally entitle the holder thereof to vote for the election of directors (**"Voting Power"**), except that **(a)** no such person or group shall be deemed to own beneficially (1) any securities acquired directly from Company pursuant to a written agreement with Company, or (2) any securities held by the Company or a subsidiary of Company (**"Subsidiary"**), or any employee benefit plan (or related trust) of Company or a Subsidiary; and **(b)** no Change in Control shall be deemed to have occurred solely by reason of any such acquisition by a corporation with respect to which, after such acquisition, more than sixty percent (60%) of the then outstanding shares of common stock of such corporation and the Voting Power of such corporation are then beneficially owned, directly or indirectly, by the persons who were the beneficial owners of the stock and Voting Power of Company immediately before such acquisition, in substantially the same proportions as their ownership immediately before such acquisition; or

(ii) the individuals who constitute the Board as of the date of this Agreement (the **"Incumbent Board"**) cease for any reason other than their deaths to constitute at least a majority of the Board; provided that any individual who becomes a director after the date of this Agreement whose election or nomination for election by Company's stockholders was approved by a vote of at least two-thirds ($^2/_3$) of the directors then comprising the Incumbent Board shall be considered, for purposes of this section, as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Company (as such terms are used in Rule 14a-11 under the 1934 Act); or

(iii) Company effects: **(a)** a merger, reorganization or consolidation of Company with respect to which the individuals and entities who were the respective beneficial owners of the shares of common stock and Voting Power of Company immediately before such merger, reorganization or consolidation do not, immediately after such merger, reorganization or

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consolidation, beneficially own, directly or indirectly, more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the Voting Power of the corporation resulting from such merger, reorganization, or consolidation; **(b)** a liquidation or dissolution of Company; or **(c)** a sale or other disposition of all or substantially all of the assets of Company.

4.4.3 For purpose of the foregoing definition, the terms "beneficially owned" and "beneficial ownership" and "person" shall have the meanings ascribed to them in SEC rules 13d-5(b) under the 1934 Act, and "group" means two or more persons acting together in such a way to be deemed a person for purposes of Section 13(d) of the 1934 Act.

4.4.4 In the event of a Constructive Discharge other than as a result of a Change in Control, Executive shall have the right to terminate this Agreement and receive the benefits set forth in Section 4.5.1 below, upon delivery of written notice to Company no later than the close of business on the sixtieth (60th) day following the effective date of a Constructive Discharge; provided, however, that such termination shall not be effective until the expiration of ten (10) days after receipt by Company of such written notice and Company has not cured such Constructive Discharge within the 10-day period. If Company so effects a cure, the Constructive Discharge notice shall be deemed rescinded and of no force or effect. Notwithstanding the foregoing, such notice and lapse of time shall not be required with respect to any event or circumstance which is the same or substantially the same as an event or circumstance with respect to which notice and an opportunity to cure has been given within the previous six (6) months. The effective date of a Constructive Discharge shall be: **(i)** in the event of a Constructive Discharge under Section 4.4.1(i) or (ii), the effective date of the event giving rise to the Constructive Discharge; or **(ii)** in the event of a Constructive Discharge under Section 4.4.1(iii), the date on which Executive receives notice of the request to relocate.

4.4.5 In the event of a Constructive Discharge as a result of a Change of Control, Executive shall have the right to terminate this Agreement and receive the benefits set forth in Section 4.5.2 upon delivery of written notice to Company no later than six (6) months following the effective date of the Change of Control.

4.5 ***Rights upon Termination.*** Upon termination of this Agreement and the Employment, the following shall apply:

4.5.1 *Termination by Company Without Cause or for Constructive Discharge.* If Company terminates the Employment Period without Cause (other than a non-renewal by Company under Section 2), or if Executive terminates the Employment Period as a result of a Constructive Discharge, Executive shall be entitled to receive payment of any Base Salary amounts that have accrued but have not been paid as of the Termination Date, and the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner that it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period). In addition, subject to Section 4.5.2, below, Company shall be obligated to pay Executive (or provide Executive with) the following benefits as severance:

(i) one (1) year of Executive's Base Salary, payable in twelve (12) equal monthly installments commencing on the Termination Date, equal to Executive's annual Base Salary in effect immediately prior to the Termination Date, such amount to be payable regardless of whether Executive obtains other employment and is compensated therefor (but only so long as Executive is not in violation of Section 5 hereof);

(ii) the Performance Bonus for the Fiscal Year in which the Termination Date occurs that would have been payable under Section 3.2 had there been no termination of the Employment Period (such Performance Bonus to be determined in the manner it would

have been determined under Section 3.2 had there been no termination of the Employment Period), payable in twelve (12) equal monthly installments commencing on the fifteenth day of the first full month following the Termination Date; and

(iii) continuation of Executive's then current enrollment (including family enrollment, if applicable) in all health and/or dental insurance benefits set forth in Section 3.2.2 for a period of twelve (12) months following the Termination Date, with Executive's contribution to such plans as if Executive were employed by Company, such contributions to be paid by Executive in the same period (e.g., monthly, bi-weekly, etc.) as all other employees of Company; provided, however that Company may terminate such coverage if payment from Executive is not made within ten (10) days of the date on which Executive receives written notice from Company that such payment is due; and provided, further, that such benefits may be discontinued earlier to the extent that Executive becomes entitled to comparable benefits from a subsequent employer.

(iv) any stock options or other awards granted to Executive pursuant to Section 3.5 that have not vested as of the Termination Date shall vest in full upon the Termination Date.

4.5.2 *Additional Severance Upon Termination for Change of Control.* If Executive terminates the Employment Period pursuant to Section 4.4 by reason of a Change of Control, then Executive shall be entitled to receive the compensation and benefits described in Section 4.5.1 (except for those benefits described in Sections 4.5.1(i) and (ii)) and the following additional benefits as severance:

(i) payment in a lump sum of an amount equal to the product of Executive's Base Salary in effect as of the Termination Date; and

(ii) a lump sum payment of the Performance Bonus for the Fiscal Year in which the Termination Date occurs that would have been payable under Section 3.2 had there been no termination of the Employment Period (such Performance Bonus to be determined in the manner it would have been determined under Section 3.2 had there been no termination of the Employment Period).

4.5.3 *Termination With Cause by Company or Without Cause by Executive.* If Company terminates the Employment Period with Cause, or if Executive terminates the Employment Period other than as a result of a Constructive Discharge or a non-renewal under Section 2, Company shall be obligated to pay Executive **(i)** any Base Salary amounts that have accrued but have not been paid as of the Termination Date; and **(ii)** the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period). No other amounts shall be payable.

4.5.4 *Termination Upon Death or Disability.* If the Employment Period is terminated because of the death or disability of Executive, Company shall be obligated to pay Executive or, if applicable, Executive's estate, the following amounts: **(i)** earned but unpaid Base Salary; **(ii)** the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period); and **(iii)** the amount of Executive's Performance Bonus, if any, for the Fiscal Year in which the Termination Date occurs that would have been payable under Section 3.2 had there been no termination of the Employment Period (such Performance Bonus, if any, to be determined in the manner it would have been determined under Section 3.2 had there been no termination of the Employment Period), payable as follows: **(a)** fifty percent (50%) of such Performance Bonus shall be paid on the Termination Date; and **(b)** the

remaining fifty percent (50%) shall be paid in twelve (12) equal monthly installments commencing on the fifteenth day of the first full month following the Termination Date.

4.5.5 *Termination for Non-Renewal by Company.* If the Employment Period is terminated by reason of a non-renewal by Company under Section 2, then Executive shall be entitled to receive payment of any Base Salary amounts that have accrued but have not been paid as of the Termination Date, and the unpaid Performance Bonus, if any, with respect to the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (such Performance Bonus, if any, to be determined in the manner that it would have been determined, and payable at the time it would have been payable, under Section 3.2 had there been no termination of the Employment Period). In addition, Company shall be obligated to pay Executive as severance one (1) year of Executive's Base Salary, payable in twelve (12) equal monthly installments commencing on the Termination Date, equal to Executive's annual Base Salary in effect immediately prior to the Termination Date, such amount to be payable regardless of whether Executive obtains other employment and is compensated therefor (but only so long as Executive is not in violation of Section 5 hereof).

4.6 Effect of Notice of Termination. Any notice of termination by Company, whether for Cause or without cause, may specify that, during the notice period, Executive need not attend to any business on behalf of Company.

5. *Noncompetition and Confidentiality.*

5.1 Covenant Not to Compete. During the Employment Period and for a period of one (1) year after the expiration or earlier termination of the Employment Period (other than a termination by Company without Cause or a termination by Executive for Constructive Discharge), Executive shall not, **(i)** directly or indirectly act in concert or conspire with any person employed by Company in order to engage in or prepare to engage in or to have a financial or other interest in any business which is a Direct Competitor (as defined below); or **(ii)** serve as an employee, agent, partner, shareholder, director or consultant for, or in any other capacity participate, engage or have a financial or other interest in any business which is a Direct Competitor (provided, however, that notwithstanding anything to the contrary contained in this Agreement, Executive may own up to two percent (2%) of the outstanding shares of the capital stock of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934). For purposes of this Agreement, the term **"Direct Competitor"** shall mean any person or entity engaged in the business of marketing or providing within the continental United States prescription products or services for pharmacy benefit management products or services including, without limitation, prepackaged prescription products or services, point of care pharmacy dispensing systems, point of care decision support or clinical software for physicians, mail service pharmacy products or services, or pharmaceuticals or pharmaceutical delivery systems.

5.2 No Solicitation of Employees. During the Employment Period and for a period of one (1) year following the expiration or earlier termination of the Employment Period for any reason, Executive shall not, directly or indirectly, whether for its own account or for the account of any other individual or entity, **(i)** employ, hire or solicit for employment, or attempt to employ, hire or solicit for employment, any Employee (as defined below), **(ii)** divert or attempt to divert, directly or indirectly, or otherwise interfere in a material fashion with or circumvent Company's relationship with, any Employees, or **(iii)** induce or attempt to induce, directly or indirectly, any Employee to terminate his or her employment or other business relationship with Company. For purposes of this Section 5.2, "Employee" shall mean any person who is or was employed by Company during the Employment Period; provided, however, that "Employee" shall not include any person **(a)** whose employment with Company was terminated by Company without cause, or **(b)** who was not employed by Company at any time during the six (6) month period immediately prior to the Termination Date.

5.3 ***Confidential Information.*** Company has advised Executive, and Executive acknowledges, that it is the policy of Company to maintain as secret and confidential all Protected Information (as defined below), and that Protected Information has been and will be developed at substantial cost and effort to Company. Executive shall not at any time, directly or indirectly divulge, furnish or make accessible to any person, firm, corporation, association or other entity (otherwise than as may be required in the regular course of Executive's employment), nor use in any manner, either during the Employment Period or after the termination of the Employment Period for any reason, any Protected Information, or cause any such information of Company to enter the public domain, except as required by law or court order. **"Protected Information"** means trade secrets, confidential and proprietary business information of Company, and any other information of Company, including but not limited to, customer lists (including potential customers), sources of supply, processes, plans, materials, pricing information, internal memoranda, marketing plans, internal policies, and products and services which may be developed from time to time by the company and its agents or employees, including Executive; provided, however, that information that is in the public domain (other than as a result of a breach of this Agreement), approved for release by Company or lawfully obtained from third parties who are not bound by a confidentiality agreement with Company, is not Protected Information.

5.4 ***Injunctive Relief***. Executive acknowledges and agrees that the restrictions imposed upon him by this Section 5 and the purpose for such restrictions are reasonable and are designed to protect the Protected Information and the continued success of Company without unduly restricting Executive's future employment by others. Furthermore, Executive acknowledges that in view of the Protected Information of Company which Executive has or will acquire or has or will have access to and the necessity of the restriction contained in this Section 5, any violation of the provisions of this Section 5 would cause irreparable injury to Company and its successors in interest with respect to the resulting disruption in their operations. By reason of the foregoing, Executive consents and agrees that if he violates any of the provisions of this Section 5, the company and its successors in interest, as the case may be, shall be entitled, in addition to any other remedies that they may have, including monetary damages, to an injunction to be issued by a court of competent jurisdiction, restraining Executive from committing or continuing any violation of this Section 5.

6. No Set-Off or Mitigation.

The Company's obligation to make the payments provided or in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and, except as otherwise provided herein, such amounts shall not be reduced whether or not Executive obtains other employment.

7. Indemnification.

To the fullest extent permitted by law, Company shall indemnify Executive (including the advancement of expenses) for any judgments, fines, amounts paid in settlement and reasonable expenses, including attorney's fees, incurred by Executive in connection with the defense or any lawsuit or other claim to which Executive is made a party by reason of being an officer, director or employee of Company or any of its Subsidiaries.

8. Miscellaneous.

8.1 ***Valid Obligation.*** This Agreement has been duly authorized, executed and delivered by Company and has been duly executed and delivered by Executive and is a legal, valid and binding obligation of Company and of Executive, enforceable in accordance with its terms.

8.2 ***No Conflicts.*** Executive represents and warrants that the performance by him of his duties hereunder will not violate, conflict with, or result in a breach of any provision of, any agreement to which he/she is a party.

8.3 ***Applicable Law.*** This Agreement shall be construed in accordance with the laws of the State of Illinois, without reference to Illinois' choice of law statutes or decisions.

8.4 ***Severability.*** The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one ore more of the provisions hereof shall not affect the validity or enforceability of any other provision. In the event any clause of this Agreement is deemed to be invalid, the parties shall endeavor to modify that clause in a manner which carries out the intent of the parities in executing this Agreement.

8.5 ***No Waiver.*** The waiver of a breach of any provision of this Agreement by any party shall not be deemed or held to be a continuing waiver of such breach or a waiver of any subsequent breach of any provision of this Agreement or as nullifying the effectiveness of such provision, unless agreed to in writing by the parties.

8.6 ***Notices.*** All demands, notices, requests, consents and other communications required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by facsimile machine (with a confirmation copy sent by one of the other methods authorized in this Section), or by commercial overnight delivery service, to the parties at the addresses set forth below:

To Company:	Allscripts, Inc. 2401 Commerce Drive Libertyville, Illinois 60048 Attention: Chief Executive Officer
with a copy to:	Akin, Gump, Strauss, Hauer & Feld, L.L.P. 1333 New Hampshire Avenue, N.W. Washington, D.C. 20036 Attention: Philip Green
To Executive:	at current address on file with the Company

Notices shall be deemed given upon the earliest to occur of **(i)** receipt by the party to whom such notice is directed, if hand delivered; **(ii)** if sent by facsimile machine, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) such notice is sent if sent (as evidenced by the facsimile confirmed receipt) prior to 5:00 p.m. Central Time and, if sent after 5:00 p.m. Central Time, on the day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) after which such notice is sent; or **(iii)** on the first business day (other than a Saturday, Sunday or legal holiday in the jurisdiction to which such notice is directed) following the day the same is deposited with the commercial carrier if sent by commercial overnight delivery service. Each party, by notice duly given in accordance therewith may specify a different address for the giving of any notice hereunder.

8.7 ***Assignment of Agreement.*** This Agreement shall be binding upon and inure to the benefit of Executive and Company, their respective successors and permitted assigns and Executive's heirs and

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personal representatives. Neither party may assign any rights or obligations hereunder to any person or entity without the prior written consent of the other party. This Agreement shall be personal to Executive for all purposes.

8.8 ***Entire Agreement; Amendments.*** Except as otherwise provided herein, this Agreement contains the entire understanding between the parties, and there are no other agreements or understandings between the parties with respect to Executive's employment by Company and his obligations thereto. Executive acknowledges that he is not relying upon any representations or warranties concerning his employment by Company except as expressly set forth herein. No amendment or modification to the Agreement shall be valid except by a subsequent written instrument executed by the parties hereto.

8.9 ***Dispute Resolution and Arbitration.*** The following procedures shall be used in the resolution of disputes:

8.9.1 *Dispute.* In the event of any dispute or disagreement between the parties under this Agreement, the disputing party shall provide written notice to the other party that such dispute exists. The parties will then make a good faith effort to resolve the dispute or disagreement. If the dispute is not resolved upon the expiration of fifteen (15) days from the date a party receives such notice of dispute, the entire matter shall then be submitted to arbitration as set forth in Section 8.9.2.

8.9.2 *Arbitration.* If the dispute or disagreement between the parties has not been resolved in accordance with the provisions of Section 8.9.1 above, then any such controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration to be held in Chicago, Illinois, in accordance with the rules of the American Arbitration Association then in effect. Any decision rendered herein shall be final and binding on each of the parties and judgement may be entered thereon in the appropriate state or federal court. The arbitrators shall be bound to strict interpretation and observation of the terms of this Agreement. The company shall pay the costs of arbitration.

8.10 ***Survival.*** The provisions of Sections 5, 7 and 8 of this Agreement shall survive the expiration or earlier termination of the Agreement.

8.11 **Headings.** Section headings used in this Agreement are for convenience of reference only and shall not be used to construe the meaning of any provision of this Agreement.

8.12 ***Counterparts.*** This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

IN WITNESS WHREOF, the parties have executed this Agreement as of the date and year first above written.

ALLSCRIPTS, INC.

By: /s/ LEE SHAPIRO

Name: Lee Shapiro

Title: President

EXECUTIVE:

/s/ WILLIAM J. DAVIS

William J. Davis

QuickLinks

Exhibit 10.8

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.19

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
2001 NONSTATUTORY STOCK OPTION PLAN**

I. PURPOSE AND DEFINITIONS

A. PURPOSE OF THE PLAN:

The Plan is intended to provide ownership of Shares by Eligible Employees and Key Non-Employees under special circumstances (including, but not limited to, in connection with corporate acquisitions) in order to attract and retain such Eligible Employees in the employ of the Company or an Affiliate, or to attract such Key Non-Employees to provide services to the Company or an Affiliate, and to provide additional incentive for such persons to promote the success of the Company or an Affiliate.

B. DEFINITIONS:

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Plan, have the following meanings:

1. **Affiliate** means a corporation which, for purposes of Section 424 of the Code, is a parent or subsidiary of the Company, direct or indirect.

2. **Board** means the Board of Directors of the Company.

3. **Code** means the Internal Revenue Code of 1986, as amended.

4. **Committee** means the committee to which the Board delegates the power to act under or pursuant to the provisions of the Plan, or the Board if no committee is selected. If the Board delegates powers to a committee, and if the Company is or becomes subject to Section 16 of the Exchange Act, then, if necessary for compliance therewith, such committee shall consist initially of not less than two (2) members of the Board, each member of which must be a "non-employee director," within the meaning of the applicable rules promulgated pursuant to the Exchange Act. Notwithstanding anything herein to the contrary, and insofar as the Board determines that it is desirable in order for compensation recognized by Participants pursuant to the Plan to be fully deductible to the Company for federal income tax purposes, each member of the Committee also shall be an "outside director" (as defined in regulations or other guidance issued by the Internal Revenue Service under Code Section 162(m))

5. **Common Stock** means the common stock, $.01 par value, of the Company.

6. **Company** means Allscripts, Inc., a Delaware corporation, and includes any successor or assignee corporation or corporations into which the Company may be merged, changed, or consolidated; any corporation for whose securities the securities of the Company shall be exchanged; and any assignee of or successor to substantially all of the assets of the Company.

7. **Disability** or **Disabled** means permanent and total disability as defined in Section 22(e)(3) of the Code.

8. **Eligible Employee** means an employee of the Company or of an Affiliate (excluding, however, any employee who also is serving as an officer or director of the Company or of an Affiliate), designated by the Board or the Committee as being eligible to be granted one or more Options under the Plan.

9. **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute thereto.

10. **Key Non-Employee** means a non-employee consultant or independent contractor of the Company or of an Affiliate who is designated by the Board or the Committee as being eligible to

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be granted one or more Options under the Plan, but excluding any non-employee directors of the Company or an Affiliate.

11. **Option** means a right or option granted under the Plan.

12. **Option Agreement** means an agreement between the Company and a Participant executed and delivered pursuant to the Plan.

13. **Participant** means an Eligible Employee or Key Non-Employee to whom one or more Options are granted under the Plan.

14. **Plan** means this Nonstatutory Stock Option Plan, as amended from time to time.

15. **Shares** means the following shares of the capital stock of the Company as to which Options have been or may be granted under the Plan: treasury shares or authorized but unissued Common Stock, $.01 par value, or any shares of capital stock into which the Shares are changed or for which they are exchanged within the provisions of Article VI of the Plan.

II. SHARES SUBJECT TO THE PLAN

The aggregate number of Shares as to which Options may be granted from time to time shall be three million (3,000,000) Shares (subject to adjustment for stock splits, stock dividends, and other adjustments described in Article VI hereof); provided, however, that if the Company is or becomes a publicly held corporation, as such term is defined under Section 162(m) of the Code, the aggregate number of Shares as to which Options may be granted in any calendar year to any one Eligible Employee shall not exceed 1,000,000 (subject to adjustment for stock splits, stock dividends, and other adjustments described in Article VI hereof).

Shares subject to Options that are forfeited, terminated, expire unexercised, canceled by agreement of the Company and the Participant, settled in cash in lieu of Common Stock or in such manner that all or some of the Shares covered by such Options are not issued to a Participant (or, if issued to the Participant, are returned to the Company by the Participant pursuant to a right of repurchase or right of first refusal exercised by the Company), or are exchanged for Options that do not involve Common Stock, shall immediately become available for Options. In addition, if the exercise price of any Option is satisfied by tendering Shares to the Company (by actual delivery or attestation), only the number of Shares issued net of the Shares tendered shall be deemed delivered for purposes of determining the maximum number of Shares available for Options.

III. ADMINISTRATION OF THE PLAN

The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum at any meeting thereof (including by telephone conference) and the acts of a majority of the members present, or acts approved in writing by a majority of the entire Committee without a meeting, shall be the acts of the Committee for purposes of this Plan. The Committee may authorize one or more of its members or an officer of the Company to execute and deliver documents on behalf of the Committee. A member of the Committee shall not exercise any discretion respecting himself or herself under the Plan. The Board shall have the authority to remove, replace or fill any vacancy of any member of the Committee upon notice to the Committee and the affected member. Any member of the Committee may resign upon notice to the Board. The Committee may allocate among one or more of its members, or may delegate to one or more of its agents, such duties and responsibilities as it determines.

Subject to the provisions of the Plan, the Committee is authorized to:

A. interpret the provisions of the Plan or of any Option or Option Agreement and to make all rules and determinations which it deems necessary or advisable for the administration of the Plan;

B. determine which employees of the Company or of an Affiliate shall be designated as Eligible Employees and which of the Eligible Employees shall be granted Options;

C. determine the Key Non-Employees to whom Options shall be granted;

D. determine the number of Shares for which an Option or Options shall be granted;

E. provide for the acceleration of the right to exercise an Option (or portion thereof); and

F. specify the terms and conditions upon which Options may be granted.

The Committee may delegate to the chief executive officer and to other senior officers of the Company or its Affiliates its duties under the Plan pursuant to such conditions or limitations as the Committee may establish. All determinations of the Committee shall be made by a majority of its members. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option.

IV. ELIGIBILITY FOR PARTICIPATION

Each Participant must be an Eligible Employee or Key Non-Employee of the Company or of an Affiliate at the time an Option is granted.

The Committee may at any time and from time to time grant one or more Options to one or more Eligible Employees or Key Non-Employees and may designate the number of Shares to be subject to each Option so granted, provided, however, that no Options shall be granted after the expiration of ten (10) years from the date of the adoption of the Plan by the Company.

Notwithstanding any of the foregoing provisions, the Committee may authorize the grant of an Option to a person not then in the employ of or serving as a consultant or independent contractor of the Company or of an Affiliate, conditioned upon such person becoming eligible to become a Participant at or prior to the execution of the Option Agreement evidencing the actual grant of such Option.

V. TERMS AND CONDITIONS OF OPTIONS

Each Option shall be set forth in an Option Agreement, duly executed on behalf of the Company and by the Participant to whom such Option is granted. Except for the setting of the Option price under Paragraph A, no Option shall be granted and no purported grant of any Option shall be effective until such Option Agreement shall have been duly executed on behalf of the Company and by the Participant. Each such Option Agreement shall be subject to at least the following terms and conditions:

A. OPTION PRICE:

The exercise price of the Shares covered by each Option granted under the Plan shall be determined by the Committee.

B. NUMBER OF SHARES:

Each Option shall state the number of Shares to which it pertains.

C. TERM OF OPTION:

Each Option shall terminate at such time as the Option Agreement may provide, and shall be subject to earlier termination as herein provided.

D. DATE OF EXERCISE:

Upon the authorization of the grant of an Option, or at any time thereafter, the Committee may, subject to the provisions of Paragraph C of this Article V, prescribe the date or dates on which the Option becomes exercisable, and may provide that the Option rights become exercisable in installments over a period of years, or upon the attainment of stated goals. It is expressly understood that Options hereunder shall, unless otherwise provided for by the Committee, be granted in contemplation of, and earned by the Participant through the completion of, future employment or service with the Company.

E. MEDIUM OF PAYMENT:

The Option price shall be paid on the date of purchase specified in the notice of exercise, as set forth in Paragraph I. It shall be paid in such form as the Committee shall, either by rules promulgated pursuant to the provisions of Article III of the Plan, or in the particular Option Agreement, provide.

F. TERMINATION OF EMPLOYMENT:

1. A Participant who ceases to be an employee or Key Non-Employee of the Company or of an Affiliate for any reason other than death, Disability, or termination for cause, may exercise any Option granted to such Participant, to the extent that the right to purchase Shares thereunder has become exercisable by the date of such termination, but only within thirty (30) days (or such other period of time as the Committee may determine) after such date, or, if earlier, within the originally prescribed term of the Option, and subject to the condition that no Option shall be exercisable after the expiration of the term of the Option. A Participant's employment shall not be deemed terminated by reason of a transfer to another employer which is the Company or an Affiliate.

2. A Participant who ceases to be an employee or Key Non-Employee for cause shall, upon such termination, cease to have any right to exercise any Option. For purposes of this Plan, "cause" shall be deemed to include (but shall not be limited to) wrongful appropriation of funds of the Company or an Affiliate, divulging confidential information about the Company or an Affiliate to the public, the commission of a gross misdemeanor or felony, or the performance of any other action that the Board or the Committee, in their sole discretion, may deem to be sufficiently injurious to the interests of the Company or an Affiliate to constitute substantial cause for termination. The determination of the Board or the Committee as to the existence of cause shall be conclusive and binding upon the Participant and the Company.

3. Except as the Committee may otherwise expressly provide or determine, a Participant who is absent from work with the Company or an Affiliate because of temporary disability (any disability other than a permanent and total Disability as defined at paragraph B(7) of Article I hereof), or who is on leave of absence for any purpose permitted by the Company or by the Committee shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated his or her employment or relationship with the Company or with an Affiliate.

4. Paragraph F(1) shall control and fix the rights of a Participant who ceases to be an employee or Key Non-Employee of the Company or of an Affiliate for any reason other than death, Disability, or termination for "cause", and who subsequently becomes Disabled or dies. Nothing in Paragraphs G and H of this Article V shall be applicable in any such case except that,

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in the event of such a subsequent Disability or death within the thirty (30) day period after the termination of employment or, if earlier, within the originally prescribed term of the Option, the Participant or the Participant's estate or personal representative may exercise the Option permitted by this Paragraph F, in the event of Disability, within twelve (12) months after the date that the Participant ceased to be an employee or Key Non-Employee of the Company or of an Affiliate or, in the event of death, within twelve (12) months after the date of death of such Participant.

G. TOTAL AND PERMANENT DISABILITY:

A Participant who ceases to be an employee or Key Non-Employee of the Company or of an Affiliate by reason of Disability may exercise any Option granted to such Participant to the extent that the right to purchase Shares thereunder has become exercisable on or before the date such Participant becomes Disabled as determined by the Committee.

A Disabled Participant, or his estate or personal representative, shall exercise such rights, if at all, only within a period of not more than twelve (12) months after the date that the Participant became Disabled as determined by the Committee (notwithstanding that the Participant might have been able to exercise the Option as to some or all of the Shares on a later date if the Participant had not become Disabled) or, if earlier, within the originally prescribed term of the Option.

H. DEATH:

In the event that a Participant to whom an Option has been granted ceases to be an employee or Key Non-Employee of the Company or of an Affiliate by reason of such Participant's death, such Option, to the extent that the right is exercisable but not exercised on the date of death, may be exercised by the Participant's estate or personal representative within twelve (12) months after the date of death of such Participant or, if earlier, within the originally prescribed term of the Option, notwithstanding that the decedent might have been able to exercise the Option as to some or all of the Shares on a later date if the Participant were alive and had continued to be an employee or Key Non-Employee of the Company or of an Affiliate.

I. EXERCISE OF OPTION AND ISSUE OF STOCK:

Options shall be exercised by giving written notice to the Company. Such written notice shall: (1) be signed by the person exercising the Option, (2) state the number of Shares with respect to which the Option is being exercised, (3) contain the warranty required by Paragraph L of Article V, and (4) specify a date (other than a Saturday, Sunday or legal holiday) not less than five (5) nor more than ten (10) days after the date of such written notice, as the date on which the Shares will be purchased. Such tender and conveyance shall take place at the principal office of the Company during ordinary business hours, or at such other hour and place agreed upon by the Company and the person or persons exercising the Option. On the date specified in such written notice (which date may be extended by the Company in order to comply with any law or regulation which requires the Company to take any action with respect to the Option Shares prior to the issuance thereof, whether pursuant to the provisions of Article VI or otherwise), the Company shall accept payment for the Option Shares and shall deliver to the person or persons exercising the Option in exchange therefor an appropriate certificate or certificates for paid non-assessable Shares. In the event of any failure to take up and pay for the number of Shares specified in such written notice on the date set forth therein (or on the extended date as above provided), the right to exercise the Option shall terminate with respect to such number of Shares, but shall continue with respect to the remaining Shares covered by the Option and not yet acquired pursuant thereto.

J. RIGHTS AS A STOCKHOLDER:

No Participant to whom an Option has been granted shall have rights as a stockholder with respect to any Shares covered by such Option except as to such Shares as have been issued to or registered in the Company's share register in the name of such Participant upon the due exercise of the Option and tender of the full Option price.

K. ASSIGNABILITY AND TRANSFERABILITY OF OPTION:

Unless otherwise permitted by the Code and by Rule 16b-3 of the Exchange Act, and approved in advance by the Committee, an Option granted to a Participant shall not be transferable by the Participant and shall be exercisable, during the Participant's lifetime, only by such Participant or, in the event of the Participant's incapacity, his guardian or legal representative. Except as otherwise permitted herein, such Option shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment, or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of any Option or of any rights granted thereunder contrary to the provisions of this Paragraph K, or the levy of any attachment or similar process upon an Option or such rights, shall be null and void.

L. PURCHASE FOR INVESTMENT:

Unless the Shares to be issued upon the particular exercise of an Option shall have been effectively registered under the Securities Act of 1933, as now in force or hereafter amended, the Company shall be under no obligation to issue the Shares covered by such exercise unless and until the following conditions have been fulfilled. In accordance with the direction of the Committee, the persons who exercise such Option shall warrant to the Company that, at the time of such exercise, such persons are acquiring their Option Shares for investment and not with a view to, or for sale in connection with, the distribution of any such Shares, and shall make such other representations, warranties, acknowledgments and affirmations, if any, as the Committee may require. In such event, the persons acquiring such Shares shall be bound by the provisions of the following legend (or similar legend) which shall be endorsed upon the certificate(s) evidencing their Option Shares issued pursuant to such exercise.

"The shares represented by this certificate have been acquired for investment and they may not be sold or otherwise transferred by any person, including a pledgee, in the absence of an effective registration statement for the shares under the Securities Act of 1933 or an opinion of counsel satisfactory to the Company that an exemption from registration is then available."

Without limiting the generality of the foregoing, the Company may delay issuance of the Shares until completion of any action or obtaining any consent that the Company deems necessary under any applicable law (including without limitation state securities or "blue sky" laws).

VI. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION; SALE OF COMPANY

If the outstanding Shares of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, or consolidation, or if a change is made to the Common Stock of the Company by reason of any recapitalization, reclassification, change in par value, stock split, reverse stock split, combination of shares or dividend payable in capital stock, or the like, the Company shall make adjustments to such options (including, by way of example and not by way of limitation, the grant of substitute options under the Plan or under the plan of such other corporation) as it may determine to be appropriate under the circumstances, and, in addition, appropriate adjustments shall be made in the number and kind of shares and in the option price per share subject to outstanding options under the Plan or under the plan of such successor corporation.

Notwithstanding anything herein to the contrary, the Company may, in its sole discretion, accelerate the timing of the exercise provisions of any Option in the event of (i) the adoption of a plan of merger or consolidation under which all the Shares of the Company would be eliminated, or (ii) a sale of all or substantially all of the Company's assets or Shares. Alternatively, the Company may, in its sole discretion, cancel any or all Options upon any of the foregoing events and provide for the payment to Participants in cash of an amount equal to the difference between the Option price and the price of a Share, as determined in good faith by the Committee, at the close of business on the date of such event, multiplied by the number of Shares subject to Option so canceled. The preceding two sentences of this Article VI notwithstanding, the Company shall be required to accelerate the timing of the exercise provisions of any Option if (i) any such business combination is to be accounted for as a pooling-of-interests under APB Opinion 16 (or any successor opinion) and (ii) the timing of such acceleration does not prevent such pooling-of-interests treatment; provided, moreover, that if any provision of the Plan or Option Agreement would disqualify the combination from pooling-of-interests accounting treatment, then the Plan and Option Agreement shall be interpreted to preserve such accounting treatment or, if necessary, the applicable provision shall be null and void. All determinations to be made in connection with the preceding sentence shall be made by the independent accounting firm whose opinion with respect to the pooling-of-interests treatment is required as a condition to the Company's consummation of such combination.

Upon a business combination by the Company or any of its Affiliates with any corporation or other entity through the adoption of a plan of merger or consolidation or a share exchange or through the purchase of all or substantially all of the capital stock or assets of such other corporation or entity, the Board or the Committee may, in its sole discretion, grant Options pursuant hereto to all or any persons who, on the effective date of such transaction, hold outstanding options to purchase securities of such other corporation or entity and who, on and after the effective date of such transaction, will become employees or directors of, or consultants to, the Company or its Affiliates. The number of Shares subject to such substitute Options shall be determined in accordance with the terms of the transaction by which the business combination is effected. Notwithstanding the other provisions of this Plan, the other terms of such substitute Options shall be substantially the same as or economically equivalent to the terms of the options for which such Options are substituted, all as determined by the Board or by the Committee, as the case may be. Upon the grant of substitute Options pursuant hereto, the options to purchase securities of such other corporation or entity for which such Options are substituted shall be canceled immediately.

VII. DISSOLUTION OR LIQUIDATION OF THE COMPANY

Upon the dissolution or liquidation of the Company other than in connection with a transaction to which the preceding Article VI is applicable, all Options granted hereunder shall terminate and become null and void; provided, however, that if the rights of a Participant under the applicable Options have not otherwise terminated and expired, the Participant shall have the right immediately prior to such dissolution or liquidation to exercise any Option granted hereunder to the extent that the right to purchase Shares thereunder has become exercisable as of the date immediately prior to such dissolution or liquidation.

VIII. TERMINATION OF THE PLAN

The Plan shall terminate ten (10) years from the date of its adoption. The Plan may be terminated at an earlier date by vote of the Board; provided, however, that any such earlier termination shall not affect any Options granted or Option Agreements executed prior to the effective date of such termination. Except as may otherwise be provided for under Articles VI and VII, and notwithstanding the termination of the Plan, any Options granted prior to the effective date of the Plan's termination may be exercised until the earlier of (i) the date set forth in the Option Agreement, or (ii) ten

(10) years from the date the Option is granted, and the provisions of the Plan with respect to the full and final authority of the Committee under the Plan shall continue to control.

IX. AMENDMENT OF THE PLAN

The Plan may be amended by the Board and such amendment shall become effective upon adoption by the Board; provided, however, that any amendment shall be subject to the approval of the stockholders of the Company at or before the next annual meeting of the stockholders of the Company if such stockholder approval is required by the Code, any federal or state law or regulation, the rules of any stock exchange or automated quotation system on which the Shares may be listed or quoted, or if the Board, in its discretion, determines to submit such changes to the Plan to its stockholders for approval.

X. EMPLOYMENT RELATIONSHIP

Nothing herein contained shall be deemed to prevent the Company or an Affiliate from terminating the employment of a Participant, nor to prevent a Participant from terminating the Participant's employment with the Company or an Affiliate, unless otherwise limited by an agreement between the Company (or an Affiliate) and the Participant.

XI. INDEMNIFICATION OF COMMITTEE

In addition to such other rights of indemnification as they may have as directors or members of the Committee, the members of the Committee shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken by them as members of the Committee and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that the Committee member is liable for gross negligence or willful misconduct in the performance of his or her duties. To receive such indemnification, a Committee member must first offer in writing to the Company the opportunity, at its own expense, to defend any such action, suit or proceeding.

XII. MITIGATION OF EXCISE TAX

Unless otherwise provided for in the Option Agreement or in any other agreement between the Company (or an Affiliate) and the Participant, if any payment or right accruing to a Participant under this Plan (without the application of this Article XII), either alone or together with other payments or rights accruing to the Participant from the Company or an Affiliate ("Total Payments") would constitute a "parachute payment" (as defined in Section 280G of the Code and regulations thereunder), such payment or right shall be reduced to the largest amount or greatest right that will result in no portion of the amount payable or right accruing under the Plan being subject to an excise tax under Section 4999 of the Code or being disallowed as a deduction under Section 280G of the Code. The determination of whether any reduction in the rights or payments under this Plan is to apply shall be made by the Company. The Participant shall cooperate in good faith with the Company in making such determination and providing any necessary information for this purpose.

XIII. SAVINGS CLAUSE

This Plan is intended to comply in all respects with applicable law and regulations. In case any one or more provisions of this Plan shall be held invalid, illegal, or unenforceable in any respect under

applicable law and regulation, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal, or unenforceable provision shall be deemed null and void; however, to the extent permitted by law, any provision that could be deemed null and void shall first be construed, interpreted, or revised retroactively to permit this Plan to be construed in compliance with all applicable law so as to foster the intent of this Plan.

XIV. WITHHOLDING

Except as otherwise provided by the Committee,

A. The Company shall have the power and right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy the minimum federal, state, and local taxes required by law to be withheld with respect to any grant, exercise, or payment made under or as a result of this Plan; and

B. In the case of any taxable event hereunder, a Participant may elect, subject to the approval in advance by the Committee, to satisfy the withholding requirement, if any, in whole or in part, by having the Company withhold Shares of Common Stock that would otherwise be transferred to the Participant having a fair market value, on the date the tax is to be determined, equal to the minimum marginal tax that could be imposed on the transaction. All elections shall be made in writing and signed by the Participant.

XV. EFFECTIVE DATE

This Plan shall become effective upon adoption by the Board. If such approval is not obtained, then this Plan and all Options granted hereunder shall be null and void ab initio.

XVI. GOVERNING LAW

This Plan shall be governed by the laws of the State of Delaware and construed in accordance therewith.

Adopted this 31st day of January, 2001.

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EXHIBIT 21.1

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
SUBSIDIARIES

Subsidiary	Jurisdiction or State of Organization
Allscripts, Inc.	Delaware

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EXHIBIT 23.1

CONSENT OF KPMG LLP

The Board of Directors
Allscripts Healthcare Solutions, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (No. 333-52470) and Form S-8 (Nos. 333-37238, 333-90129, and 333-59212) of Allscripts Healthcare Solutions, Inc. of our reports dated March 28, 2003, relating to the consolidated balance sheets of Allscripts Healthcare Solutions, Inc. and subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2002, and related consolidated financial statement schedule, which reports appear in the December 31, 2002 annual report on Form 10-K of Allscripts Healthcare Solutions, Inc.

Our report on the consolidated financial statements indicates the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

/s/ KPMG LLP

Chicago, Illinois
March 28, 2003

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EXHIBIT 23.1

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EXHIBIT 99.1

The following statement is being made to the Securities and Exchange Commission solely for purposes of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1349), 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, DC 20549

Re: Allscripts Healthcare Solutions, Inc.

Ladies and Gentlemen:

In accordance with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 USC 1349), each of the undersigned hereby certifies that:

(i) this Annual Report on Form 10-K 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 report fairly presents, in all material respects, the financial condition and results of operations of Allscripts Healthcare Solutions, Inc.

Dated as of this 31st day of March, 2003.

/s/ GLEN E. TULLMAN	/s/ WILLIAM J. DAVIS
Glen E. Tullman Chief Executive Officer	William J. Davis Chief Financial Officer

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

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