

ALLSCRIPTS HEALTHCARE SOLUTIONS INC
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

Commission file number 000-32085

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

222 Merchandise Mart, Suite 2024

Chicago, IL 60654

(Address of principal executive offices)

(866) 358-6869

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

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(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of July 31, 2007, there were 56,097,146 shares of the registrant's \$0.01 par value common stock outstanding.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts)**

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$40,376	\$42,461
Marketable securities	26,992	14,553
Accounts receivable, net of allowances of \$3,845 and \$4,234 at June 30, 2007 and December 31, 2006, respectively	69,610	55,579
Deferred taxes, net	26,716	27,437
Inventories	4,012	3,247
Prepaid expenses and other current assets	15,021	10,620
Total current assets	182,727	153,897
Long-term marketable securities	19,734	26,024
Fixed assets, net	17,111	14,094
Software development costs, net	18,540	12,285
Intangible assets, net	72,927	78,050
Goodwill	184,124	188,261
Other assets	4,308	4,999
Total assets	\$499,471	\$477,610
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$12,267	\$9,294
Accrued expenses	16,496	17,861
Accrued compensation	5,205	8,685
Deferred revenue	38,613	35,549
Current portion of long-term debt	268	258
Total current liabilities	72,849	71,647
Long-term debt	85,304	85,441
Deferred taxes, net	3,294	3,915
Other liabilities	2,022	357
Total liabilities	163,469	161,360
Preferred stock:		
Undesignated, \$0.01 par value, 1,000 shares authorized, no shares issued and outstanding at June 30, 2007 and December 31, 2006		
Common stock:		
\$0.01 par value, 150,000 shares authorized; 56,073 shares issued and outstanding at June 30, 2007; 54,358 shares issued and shares outstanding as of December 31, 2006, respectively		
	560	543
Additional paid-in-capital	858,805	849,628

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Accumulated deficit	(523,310)	(533,805)
Accumulated other comprehensive loss	(53)	(116)
Total stockholders' equity	336,002	316,250
Total liabilities and stockholders' equity	\$499,471	\$477,610

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)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(Unaudited)			
Revenue:				
Software and related services	\$54,681	\$46,745	\$105,921	\$75,059
Prepackaged medications	10,939	10,508	21,168	22,018
Information services	4,421	2,761	7,974	5,141
Total revenue	70,041	60,014	135,063	102,218
Cost of revenue:				
Software and related services	22,797	18,504	45,179	29,985
Prepackaged medications	9,141	8,716	17,449	18,042
Information services	2,632	1,522	4,691	2,794
Total cost of revenue	34,570	28,742	67,319	50,821
Gross profit	35,471	31,272	67,744	51,397
Selling, general and administrative expenses	25,425	23,122	47,799	39,930
Amortization of intangible assets	2,576	3,281	5,152	4,651
Income from operations	7,470	4,869	14,793	6,816
Interest expense	(930)	(940)	(1,863)	(1,835)
Interest income and other, net	1,106	631	2,143	1,712
Gain on sale of equity investment	2,392		2,392	
Income before income taxes	10,038	4,560	17,465	6,693
Provision for income taxes	4,010	1,733	6,970	2,543
Net income	\$6,028	\$2,827	\$10,495	\$4,150
Net income per share basic	\$0.11	\$0.05	\$0.19	\$0.09
Net income per share diluted	\$0.10	\$0.05	\$0.18	\$0.08
Weighted-average shares of common stock outstanding used in computing basic net income per share	55,648	52,202	55,146	48,573
Weighted-average shares of common stock outstanding used in computing diluted net income per share	64,802	55,282	64,327	51,665

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$10,495	\$4,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,101	7,537
Stock-based compensation expense	1,280	823
Write-off of capitalized software		290
Gain on sale of equity investment	(2,392)	
Realized loss on investments	35	126
Provision for doubtful accounts	1,377	1,471
Changes in operating assets and liabilities:		
Accounts receivable	(15,489)	(3,982)
Inventories	(765)	(586)
Prepaid expenses and other assets	(4,021)	106
Deferred taxes	6,128	1,660
Accounts payable	2,965	(658)
Accrued expenses	(1,454)	1,517
Accrued compensation	(3,345)	315
Deferred revenue	3,064	(1,179)
Other liabilities	(63)	160
Net cash provided by operating activities	6,916	11,750
Cash flows from investing activities:		
Capital expenditures	(5,104)	(2,598)
Capitalized software	(8,035)	(3,502)
Investment in promissory note receivable		(500)
Sale of equity investment	2,592	
Purchase of marketable securities	(17,485)	(3,508)
Maturities of marketable securities	11,373	55,942
Payment for A4 Health Systems, Inc. and related transaction costs (net of \$21,742 cash acquired in 2006)	(265)	(209,718)
Net cash used in investing activities	(16,924)	(163,884)
Cash flows from financing activities:		
Payments of capital lease obligations		(14)
Net proceeds received in issuance of common stock		140,674
Repurchase of common stock from a related party		(21,078)
Proceeds from employee stock purchase plan, net	470	
Proceeds from exercise of common stock options	7,453	4,625
Net cash provided by financing activities	7,923	124,207
Net decrease in cash and cash equivalents	(2,085)	(27,927)
Cash and cash equivalents, beginning of period	42,461	60,905
Cash and cash equivalents, end of period	\$40,376	\$32,978

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Non-cash investing and financing information:

Common stock issued in connection with the acquisition of A4 Health Systems, Inc.	\$68,775
Assumption of secured promissory note in connection with the A4 acquisition	\$3,400
Issuance of common stock from treasury	\$11,250

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, dollar and share amounts in thousands, except per-share amounts)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The interim consolidated financial statements include the consolidated accounts of Allscripts Healthcare Solutions, Inc and its wholly-owned subsidiaries (Allscripts or the Company) with all significant intercompany transactions eliminated. In management's opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006, in Allscripts' Annual Report on Form 10-K, filed with the SEC on March 1, 2007. Operating results for the three months and six months ended June 30, 2007 are not necessarily indicative of the results for the full year. Certain of the 2006 amounts in the accompanying financial statements have been reclassified to conform to the presentation in this report.

2. 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 American Institute of Certified Public Accountants Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts. Allscripts recognizes revenue on an input basis using actual hours worked as a percentage of total expected hours required by the arrangement, provided that the fee is fixed and determinable and collection of the receivable is probable. Maintenance and support from these agreements is recognized over the term of the support agreement based on vendor-specific objective evidence of fair value of the maintenance revenue, which is generally based upon contractual renewal rates. For agreements that are deemed to have extended payment terms, revenue is recognized using the input method but is limited to the amounts due and payable.

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

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

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

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

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

As of June 30, 2007 and December 31, 2006, there were \$15,375 and \$8,942, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue consisted of the following:

	June 30, 2007	December 31, 2006
Prepayments and billings in excess of revenue earned on contracts in progress for software and services provided by Allscripts and included in the software and related services segment	\$11,898	\$16,264
Prepayments and billings in excess of revenue earned on contracts in progress for support and maintenance provided by Allscripts and included in the software and related services segment	21,738	14,676
Prepayments and billings in excess of revenue earned for interactive physician education sessions and related services provided by the Allscripts physicians interactive business unit and included in the information services segment	4,977	4,609
Total deferred revenue	\$38,613	\$35,549

3. Acquisitions

On March 2, 2006, Allscripts acquired A4 Health Systems, Inc. (A4), whereby Allscripts acquired all of the outstanding equity interests of A4 for aggregate consideration of \$215,000 in cash and 3,500 shares of Allscripts common stock. An additional payment of approximately \$12,730 was made by Allscripts to A4 shareholders in respect of A4 s level of working capital at closing. The A4 acquisition enables Allscripts to reach new markets such as small and mid-sized physician practice groups that seek either an electronic health record (EHR) or a combined EHR and practice management system, and hospitals that seek emergency department information systems and care management solutions.

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

The results of operations of A4 have been included in the accompanying consolidated statements of operations from the date of the A4 acquisition. The total purchase price for the acquisition is as follows:

Cash consideration to A4 shareholders (cash payment of \$215,000 and additional working capital payment of \$12,730)	\$227,730
Fair value of Allscripts shares issued to A4 shareholders (3,500 Allscripts common shares at \$19.65 per share, the last sale price of Allscripts common stock on March 2, 2006)	68,775
Acquisition-related transaction costs	4,685
Total purchase price	\$301,190

The above purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based on management s valuation of their current fair values. Acquisition-related transaction costs include investment banking fees, loan commitment fees, legal and accounting fe