ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.
Form 10-Q
January 09, 2009
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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 November 30, 2008

OR

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

Commission file number 000-32085

ALLSCRIPTS-MISYS 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 Number)**

222 Merchandise Mart, Suite 2024

Chicago, IL 60654

(Address of principal executive offices)

(866) 358-6869

(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 x No ¨

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

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

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

As of December 31, 2008, there were 146,117,377 shares of the registrant s $0.01 par value common stock outstanding.

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Explanatory Note

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	November 30, 2008	May 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$68,890	$325
Marketable securities	5,494	
Accounts receivable, net of allowances of $11,013 and $3,351 at November 30, 2008 and May 31, 2008, respectively	148,038	48,250
Deferred taxes, net	6,822	852
Inventories	6,049	1,918
Prepaid expenses and other current assets	31,821	9,950
Total current assets	267,114	61,295
Long-term marketable securities	2,735	
Property and equipment, net	18,817	6,082
Software development costs, net	2,306	
Intangible assets, net	244,413	8,637
Goodwill	431,974	82,406
Deferred taxes, net		8,254
Other assets	13,977	12,594
Total assets	$981,336	$179,268
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$22,757	$14,262
Accrued expenses	46,237	12,606
Accrued compensation and benefits	21,994	9,700
Line of credit		3,232
Deferred revenue	66,012	27,189
Current portion of long-term debt and capital lease obligation	957	1,082
Total current liabilities	157,957	68,071
Long-term debt and long-term capital lease obligation	77,868	548
Deferred taxes, net	38,093	
Other liabilities	2,483	
Total liabilities	276,401	68,619
Preferred stock:		
Undesignated, $0.01 par value, 1,000 shares authorized, no shares issued and outstanding at November 30, 2008 and May 31, 2008		

Common stock:		
$0.01 par value, 199,000 shares authorized; 146,030 shares issued and outstanding at November 30, 2008; 82,886 shares issued and outstanding at May 31, 2008	1,460	829
Additional paid-in capital	877,237	283,133
Accumulated deficit	(173,906)	(173,313)
Accumulated other comprehensive loss	144	
Total stockholders equity	704,935	110,649
Total liabilities and stockholders equity	$981,336	$179,268

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

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ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2008	2007	2008	2007
Revenue:				
System sales	$20,761	$16,692	$33,791	$31,264
Professional services	11,782	7,863	19,188	15,034
Maintenance	46,734	35,284	83,369	70,175
Transaction processing and other	44,636	36,547	80,354	73,130
Total software and related services	123,913	96,386	216,702	189,603
Prepackaged medications	4,700		4,700	
Total revenue	128,613	96,386	221,402	189,603
Cost of revenue:				
System sales	11,670	8,490	19,414	16,177
Professional services	11,881	6,556	18,359	13,134
Maintenance	16,756	14,174	31,603	28,431
Transaction processing and other	17,640	13,287	31,365	28,263
Total software and related services	57,947	42,507	100,741	86,005
Prepackaged medications	3,904		3,904	
Total cost of revenue	61,851	42,507	104,645	86,005
Gross profit	66,762	53,879	116,757	103,598
Selling, general and administrative expenses	64,113	31,395	97,012	65,855
Research and development	10,927	8,146	18,885	19,597
Amortization of intangible assets	1,256	5,474	1,443	10,948
Income (loss) from operations	(9,534)	8,864	(583)	7,198
Interest expense	(628)	(57)	(690)	(130)
Interest income and other, net	284	22	285	33
Income (loss) from operations before income taxes	(9,878)	8,829	(988)	7,101
Provision (benefit) for income taxes	(3,913)	3,373	(399)	2,714
Net income (loss)	($5,965)	$5,456	($589)	$4,387
Net income (loss) per share basic and diluted	($0.05)	$0.07	($0.01)	$0.05
Weighted-average shares of common stock outstanding used in computing basic net income per share	118,912	82,886	100,800	82,886
Weighted-average shares of common stock outstanding used in computing diluted net income per share	118,912	82,886	100,800	82,886

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

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ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended November 30, 2008	2007
Cash flows from operating activities:		
Net income (loss)	($589)	$4,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,168	13,522
Stock-based compensation expense	1,049	1,376
Asset impairment loss	14,076	
Deferred taxes	(7,778)	(972)
Provision for doubtful accounts	3,415	1,071
Changes in operating assets and liabilities:		
Accounts receivable	(14,767)	(5,508)
Prepaid expenses and other assets	(6,744)	(1,266)
Inventory	(180)	
Accounts payable	(35)	(4,386)
Accrued expenses	1,105	(236)
Accrued compensation and benefits	(2,910)	(696)
Deferred revenue	(5,566)	(5,960)
Other non-current liabilities	289	
Net cash provided by (used in) operating activities	(12,467)	1,332
Cash flows from investing activities:		
Purchase of preferred shares in iMedica		(8,000)
Capital expenditures	(1,581)	(597)
Capitalized software	(2,518)	
Net proceeds received from sale of building	6,450	
Purchase of marketable securities	(38)	
Sales and maturities of marketable securities	136	
Payments for acquisition of Allscripts	(329,494)	
Net cash acquired in merger with Allscripts	65,728	
Net cash used in investing activities	(261,317)	(8,597)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	371	
Change in parent s net investment, including $330,000 received from Misys plc	348,254	5,599
Line of credit payments	(41,915)	(60,704)
Line of credit borrowings	38,683	63,323
Payment on promissory note	(3,030)	
Payment of capital lease obligation	(14)	(834)
Net cash provided by financing activities	342,349	7,384
Net increase in cash and cash equivalents	68,565	119
Cash and cash equivalents, beginning of period	325	1,370

Cash and cash equivalents, end of period	$68,890	$1,489

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

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ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

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

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The interim consolidated financial statements include the consolidated accounts of Allscripts-Misys Healthcare Solutions, Inc. and its wholly-owned subsidiaries (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 of MHS for the year ended May 31, 2008, which were included in Allscripts definitive proxy statement, filed with the SEC on August 21, 2008. Operating results for the three and six months ended November 30, 2008 are not necessarily indicative of the results for the full year. Certain of the 2007 amounts in the accompanying financial statements have been reclassified to conform to the presentation in this report.

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

2. Revenue Recognition

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

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

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

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

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

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

In accordance with Emerging Issues Task Force Issue Number 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF 01-14), the Company records reimbursements for out-of-pocket expenses incurred as revenue in the statement of operations. These amounts totaled approximately $1,709 and $1,834, for the six months ended November 30, 2008 and 2007, respectively.

Maintenance fees are recognized ratably over the period of the contract based on vendor specific objective evidence of fair value. Revenue from EDI services is recognized as services are provided and is determined based on the volume of transactions processed. Revenue from the sale of prepackaged medications, net of provisions for estimated returns, is recognized upon shipment of the pharmaceutical products, the point at which the customer takes ownership and assumes risk of loss, when no performance obligations remain and collection of the receivable is probable. Allscripts offers the right of return on pharmaceutical products under various policies and estimates and maintains reserves for product returns based on historical experience following the provisions of FAS No. 48, Revenue Recognition When Right of Return Exists.

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As of November 30, 2008 and May 31, 2008, there was $22,775 and $16,601, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue is comprised of balances related to software and services and balances due to support and maintenance. Deferred revenue consisted of the following:

	November 30, 2008	May 31, 2008
Prepayments and billings in excess of revenue earned on contracts in progress for software and services provided by Allscripts	$30,142	$18,346
Prepayments and billings in excess of revenue earned on contracts in progress for support and maintenance provided by Allscripts	35,870	8,843
Total deferred revenue	$66,012	$27,189

3. Business Combinations

Allscripts Healthcare Solutions, Inc. and Misys Healthcare Systems

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

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

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

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

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

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

The purchase price has been preliminarily allocated as follows:

Acquired cash and marketable securities	$410,077
Accounts receivable, net	88,436
Prepaids and other current assets	18,578
Fixed assets and other long-term assets	24,695
Goodwill	349,539
Intangible assets	239,400
Deferred tax liability, net	(48,155)
Accounts payable and accrued liabilities	(386,554)
Deferred revenue	(44,389)
Long-term debt	(80,602)
Other liabilities	(1,827)
Net assets acquired	$569,198

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

We have allocated $349,539 to goodwill and $239,400 to intangible assets. Allocated goodwill consists of $263,698, $66,203 and $19,638 attributed to the clinical solutions, health solutions and prepackaged medications segments as of the date of the October 10, 2008 acquisition, respectively. Of the $239,400 of acquired intangible assets, $53,000 was assigned to registered trade names, which have an indefinite life and are not subject to amortization. The remaining $186,400 of intangible assets acquired consist of the following; $49,000 was assigned to service and maintenance contracts with a useful life of 20 years, $47,000 was assigned to developed technology rights with a useful life of 7 years, $38,000 was assigned to core technology with a useful life of 12 years, $23,000 was assigned to customer relationships with a useful life of 20 years, $15,000 was assigned to ASP contracts with a useful life of 15 years, $7,000 was assigned to service and maintenance contract backlog with a useful life of 4 years, $5,000 was assigned to provider relationships with a useful life of 15 years, $2,000 was assigned to service backlog with a useful life of 5 years and $400 was assigned to Allscripts non-compete agreement with a useful life of 1 year. The intangible assets are being amortized on a straight-line basis over their average useful lives. The above values and lives are subject to change upon completion of the valuation process.

The following unaudited pro forma information assumes the Allscripts and MHS merger occurred on June 1, 2007. The unaudited pro forma supplemental results have been prepared based on estimates and assumptions, which we believe are reasonable and are not necessarily indicative of the consolidated financial position or results of income had the Transactions occurred on June 1, 2007, nor of future results of operations. The unaudited pro forma results for the three and six months ended November 30, 2008 and 2007 are as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2008	2007	2008	2007
Total revenue	$170,945	$163,388	$342,266	$322,742
Net income	$7,696	$6,963	$16,942	$5,114
Earnings per share:				
Basic	$0.05	$0.05	$0.12	$0.04
Diluted	$0.05	$0.05	$0.12	$0.04

The unaudited pro forma information for the three and six months ended November 30, 2008 and 2007 include the following adjustments:

Decrease in revenue for the three and six months ended November 30, 2008 and 2007 of approximately $2,650 and $6,400, respectively, relating to deferred revenue purchase accounting adjustments.

Increase in net income of approximately $49,600 and $53,300, respectively, for the three and six months ended November 30, 2008 and 2007, which represents pre-merger related costs that would have been excluded from earnings due to the pro forma information assuming that the merger occurred on June 1, 2008. There were no pre-merger costs recorded in the three and six months ended November 30, 2007.

Increase to amortization expense of approximately $4,400 and $8,800 for the three and six months ended November 30, 2008 and 2007 related to management s preliminary estimate of the fair value of intangible assets acquired as a result of the Transactions that were completed on October 10, 2008. These increases were offset by the elimination of all legacy Allscripts historical intangible asset and capitalized software amortization for all applicable periods.

On September 30, 2008, legacy Allscripts closed on the sale of the Physicians Interactive business (PI). The revenue and net income for PI has been excluded for the three and six months ended November 30, 2008 and 2007.

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4. Stock-Based Compensation

During the three and six months ended November 30, 2008 and 2007, Allscripts recorded stock-based compensation cost in accordance with SFAS 123(R) as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2008	2007	2008	2007
Stock-based compensation:				
Allscripts-Misys Healthcare Solutions, Inc. stock-based compensation expense	$358	$	$358	$
Misys plc stock-based compensation expense	(105)	848	691	1,791
Total stock-based compensation	$253	$848	$1,049	$1,791

Allscripts Stock Plan - Restricted Stock Awards and Units

During the six months ended November 30, 2008, management awarded 979 shares of restricted stock units to certain employees under the Amended and Restated 1993 Stock Incentive Plan, with a weighted average fair value of $5.72 per share. The awards of restricted stock have an average four-year vesting term. Upon termination of an employee s employment with Allscripts, any unvested shares of restricted stock will be forfeited unless otherwise provided in an employee s employment agreement. As of November 30, 2008, 3,093 restricted stock awards and units combined had been awarded, of which 1,311 were unvested. The fair value of the shares of unvested restricted stock on the date of the grant is amortized ratably over the vesting period. As of November 30, 2008, $5,268 of unearned compensation related to unvested awards of restricted stock was netted against the balance of additional paid in capital and will be recognized over the remaining vesting terms of the awards.

The following table summarizes the status of unvested restricted stock outstanding at November 30, 2008 and changes during the six months then ended:

	Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at May 31, 2008		$
Unvested awards assumed as of October 10, 2008 Transactions	380	$10.21
Awarded	979	$5.72
Vested		$
Forfeited	(48)	$9.86
Unvested restricted stock at November 30, 2008	1,311	$6.87

Allscripts Stock Plan - Stock Options

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As of November 30, 2008, there was no unrecorded deferred stock-based compensation balance related to stock options. Allscripts did not grant any stock options during the six months ended November 30, 2008.

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

	Options Outstanding	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Balance at May 31, 2008		$		$
Balance assumed as of October 10, 2008 Transactions	5,994	$4.77		
Options exercised	(148)	$2.76		
Options forfeited	(67)	$6.48		
Balance at November 30, 2008	5,779	$4.81	5,779	$4.81

The aggregate intrinsic value of stock options outstanding as of November 30, 2008 was $22,884, which is based on Allscripts closing stock price of $7.70 as of November 28, 2008. The intrinsic value of stock options outstanding represents the amount that would have been received by the option holders had all option holders exercised their stock options as of that date. The total number of vested and exercisable stock options as of November 30, 2008 was 5,779, with an intrinsic value of $22,884.

The total intrinsic value of stock options exercised during the six months ended November 30, 2008 was $586. The total cash received from employees as a result of employee stock option exercises during the six months ended November 30, 2008 was $371, net of related taxes. Allscripts settles employee stock option exercises with newly issued common shares.

Information regarding stock options outstanding at November 30, 2008 is as follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$0.92-$1.52	489	$1.37	489	$1.37
$1.70-$2.70	1,273	$1.70	1,273	$1.70
$2.71-$2.71	857	$2.71	857	$2.71
$2.72-$3.25	519	$3.25	519	$3.25
$3.31-$3.72	401	$3.59	401	$3.59
$4.57-$5.13	1,292	$4.93	1,292	$4.93
$5.41-$21.47	886	$12.66	886	$12.66
$26.74-$68.30	62	$30.66	62	$30.66
	5,779	$4.81	5,779	$4.81

The weighted average remaining contractual life of the options outstanding as of November 30, 2008 ranges from approximately 1 year to 6 years.

Allscripts Employee Stock Purchase Plan

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

Allscripts treats the ESPP as a non-compensatory plan in accordance with SFAS No. 123(R). Due to the Allscripts merger occurring during the second quarter of fiscal 2009, there were no shares issued under the ESPP during the six months ended November 30, 2008. There were 21 shares purchased under the ESPP on December 31, 2008 and the latest offering period began on December 1, 2008 with shares to be purchased under the plan on February 28, 2009.

Misys plc Stock Plan

Misys plc operates several share based compensation plans. The Misys plc plans include both market price awards (options priced at fair value of Misys plc stock at date of grant) and nil cost awards (zero strike price). Certain of the awards include performance based vesting conditions, otherwise options vest over a service period, generally three years. Periodically, and in accordance with the plans, Misys plc grants share options to employees of Allscripts. The fair value of these awards is recorded as compensation cost over the term of vesting period.

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The fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model. Additional information with respect to the plan activity related to Allscripts for the six months ended November 30, 2008 is summarized as follows:

	Nil Cost		Market Value		
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
At May 31, 2008	1,832		5,272	5.67	
Granted	3,129	1.17			
Exercised	(364)				
Canceled or expired	(58)		(914)	4.93	
At November 30, 2008	4,539		4,358	4.93	
Options exercisable			4,199	4.53	

The weighted-average fair value of all options granted during the six months ended November 30, 2008 was $1.17 per share. The weighted-average remaining contractual term of options outstanding was 2.53 years as of November 30, 2008. The weighted average remaining contractual term of options exercisable was 1.28 years as of November 30, 2008. The total compensation cost related to non-vested awards not yet recognized as of November 30, 2008 was $4,436 and the weighted average period over which it will be recognized is 1.69 years. The aggregate intrinsic value of all options outstanding and all options exercisable at November 30, 2008 was $6,641 and $0, respectively. The total intrinsic value of options exercised during the six months ended November 30, 2008 was $7,362.

The following table summarizes information about stock options outstanding and exercisable at November 30, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0	4,539	3.39	$0		$0
$3.18-$4.35	1,969	2.27	$3.19	1,810	$3.13
$4.80-$4.84	1,240	1.65	$4.10	1,240	$4.10
$5.59-$11.97	1,146	0.59	$7.14	1,146	$7.14
$19.19	3	1.29	$16.24	3	$16.24
	8,897			4,199	

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5. Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalent balances at November 30, 2008 and May 31, 2008 consist of cash and money market funds with original maturities at the time of purchase of less than 90 days. Allscripts cash, cash equivalents, short-term marketable securities and long-term marketable securities are invested in overnight repurchase agreements, money market funds, U.S. and non-U.S. government debt securities, and corporate debt securities. The carrying values of cash and cash equivalents, short-term marketable securities and long-term marketable securities held by Allscripts are as follows:

	November 30, 2008	May 31, 2008
Cash and cash equivalents:		
Cash	$56,031	$325
Money market funds	12,859	
	68,890	325
Short-term marketable securities:		
Corporate debt securities	5,494	
	5,494	
Long-term marketable securities:		
U.S. government and agency debt obligations	1,899	
Corporate debt securities	836	
	2,735	
Total cash, cash equivalents and marketable securities	$77,119	$325

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

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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

6. Goodwill and intangibles

The following table summarizes goodwill and intangible assets by asset class. Goodwill at November 30, 2008, consists of $346,133, $66,203 and $19,638 related to the clinical solutions, health solutions and prepackaged medication segments, respectively. Goodwill at May 31, 2008, consists of $82,406, all related to the clinical solutions segment. On October 10, 2008, Allscripts and Misys completed a reverse merger, resulting in $349,539 of goodwill and $239,400 of intangible assets (see Note 3). The proprietary technology, customer relationships and trade name intangible assets are being amortized over their average useful lives. Allscripts recorded amortization expense related to the intangible assets amounting to $3,034 and $5,877 during the three months ended November 30, 2008 and 2007, respectively, and recorded $3,624 and $11,754 in the six months ended November 30, 2008 and 2007, respectively. Of the total amortization expense, amounts related to proprietary technology of $1,778 and $403 for the three months ended November 30, 2008 and 2007, respectively, and $2,181 and $806 for the six months ended November 30, 2008 and 2007, respectively, have been included in cost of revenue, system sales. The remaining intangible amortization is reflected as amortization of intangible assets on the consolidated statements of operations.

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Goodwill and intangible assets as of November 30, 2008 and May 31, 2008 consist of the following:

	November 30, 2008			May 31, 2008		
	Gross Assets	Accumulated Amortization	Intangible Assets, Net	Gross Assets	Accumulated Amortization	Intangible Assets, Net
Amortized intangible assets:						
Proprietary technology	$200,660	$113,425	$87,235	$115,660	$111,244	$4,416
Customer relationships	322,755	219,171	103,584	221,755	217,849	3,906
Trade name	20,056	19,462	594	19,656	19,341	315
	543,471	352,058	191,413	357,071	348,434	8,637
Unamortized intangible assets:						
Registered trademarks	53,000		53,000			
Goodwill	869,483	437,509	431,974	519,915	437,509	82,406
Total goodwill and intangible assets	$1,465,954	$789,567	$676,387	$876,986	$785,943	$91,043

7. Comprehensive Income

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

The components of comprehensive income are as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2008	2007	2008	2007
Net income (loss)	($5,965)	$5,456	($589)	$4,387
Other comprehensive income:				
Unrealized gain on marketable securities, net of tax	144		144	
Comprehensive income (loss)	($5,821)	$5,456	($445)	$4,387

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As of November 30, 2008, the components of accumulated other comprehensive income (loss), net of income tax, consist of unrealized losses on Allscripts marketable securities. There were no investments outstanding as of May 31, 2008 and therefore no accumulated other comprehensive income (loss) to disclose. The components of the net unrealized gain on marketable securities, net of tax, are as follows:

	November 30, 2008
Short-term marketable securities:	
Gross unrealized gains	$39
Gross unrealized losses	(18)
Net short-term unrealized gains	21
Long-term marketable securities:	
Gross unrealized gains	157
Gross unrealized losses	(34)
Net long-term unrealized gains	123
Total net unrealized gains on marketable securities	$144

8. Net Income Per Share

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

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2008	2007	2008	2007
Net earnings available for diluted per-share calculation:				
Net income (loss)	($5,965)	$5,456	($589)	$4,387
Interest expense on 3.5% Senior Convertible Notes, net of tax				
Net earnings available for di				