

ALLSCRIPTS HEALTHCARE SOLUTIONS INC

Form S-3

September 28, 2004

Table of Contents

As filed with the Securities and Exchange Commission on September 28, 2004

Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Allscripts Healthcare Solutions, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

2401 Commerce Drive
Libertyville, Illinois 60048
(847) 680-3515

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Brian D. Vandenberg

Vice President and General Counsel

Allscripts Healthcare Solutions, Inc.

2401 Commerce Drive

Libertyville, Illinois 60048

(847) 680-3515

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. " _____

Table of Contents**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
3.50% Convertible Senior Debentures due July 15, 2024	\$82,500,000	100%	\$82,500,000	\$10,453
Common Stock, par value \$0.01 per share	7,329,424 shares (2)			

- (1) Equals the aggregate principal amount of the debentures being registered. Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
- (2) Represents the number of shares of common stock that are initially issuable upon conversion of the debentures. Pursuant to Rule 416 under the Securities Act, also includes such indeterminate number of shares of common stock as may be issued from time to time upon conversion of the debentures as a result of the anti-dilution provisions thereof. No additional consideration will be received for the common stock, and therefore no registration fee is required pursuant to Rule 457(i) of the Securities Act.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated September 28, 2004

Prospectus

\$82,500,000

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

3.50% Convertible Senior Debentures Due 2024

and Shares of Common Stock Issuable Upon Conversion Thereof

On July 6, 2004, we issued and sold \$75,000,000 aggregate principal amount of our 3.50% Convertible Senior Debentures Due 2024 and, on July 14, 2004, we issued and sold an additional \$7,500,000 aggregate principal amount of our debentures. The debentures are general unsecured obligations and will rank equally in right of payment with all of our other existing and future obligations that are unsecured and unsubordinated. This prospectus will be used by selling securityholders to resell their debentures and the common stock issuable upon conversion of their debentures. We will not receive any proceeds from the offering.

We will pay interest on the debentures on July 15 and January 15 of each year, beginning January 15, 2005.

Each \$1,000 principal amount of the debentures will be convertible at the holder's option at a conversion rate of 88.8415 shares of our common stock, subject to adjustment for certain reasons, only under the following circumstances:

during any fiscal quarter commencing after September 30, 2004, if the last reported sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter exceeds 130% of the conversion price (as defined in this prospectus) on that 30th trading day; or

subject to certain exceptions, during the five business day period after any five consecutive trading-day period in which the trading price per debenture for each day of such period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such day; or

if we have called the debentures for redemption; or

upon the occurrence of certain specified corporate transactions described in this prospectus.

Upon conversion, we will have the right to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock. If certain corporate transactions occur on or prior to July 15, 2009, we will in certain circumstances increase the conversion rate by a number of additional shares of common stock as described in this prospectus.

The conversion rate of 88.8415 shares is equivalent to an initial conversion price of \$11.256 per share of common stock. Shares of our common stock are quoted on the Nasdaq National Market under the symbol MDRX. The last reported sale price of our common stock on September 27, 2004 was \$8.74 per share.

We may redeem some or all of the debentures for cash on or after July 20, 2009. A holder may require us to repurchase all or a portion of such holder's debentures on July 15, 2009, 2014 and 2019 or, subject to specified exceptions, upon a change of control (as defined in this prospectus).

The debentures are not listed on any securities exchange or included in any automated quotation system. The debentures are eligible in the PORTALSM Market.

Investing in the debentures involves risks. See Risk Factors beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2004

Table of Contents

TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	1
<u>Where You Can Find More Information</u>	1
<u>About this Prospectus</u>	2
<u>Summary</u>	3
<u>Risk Factors</u>	7
<u>Use of Proceeds</u>	28
<u>Ratios of Earnings to Fixed Charges</u>	28
<u>Price Range of Common Stock</u>	29
<u>Dividend Policy</u>	29
<u>Description of the Debentures</u>	30
<u>Description of Capital Stock</u>	59
<u>Certain U.S. Federal Income Tax Considerations</u>	63
<u>Selling Securityholders</u>	71
<u>Plan of Distribution</u>	74
<u>Legal Matters</u>	77
<u>Experts</u>	77

As used in this prospectus, Allscripts, the company, we, us and our refer to Allscripts Healthcare Solutions, Inc. and its subsidiaries, unless stated otherwise or the context requires otherwise.

You should rely only on the information contained in this prospectus and the documents incorporated or deemed to be incorporated by reference herein. We have not authorized anyone to provide you with information that is different. If you receive any information that is different, you should not rely on it. This prospectus does not constitute an offer to sell, nor a solicitation of an offer to buy, any of the securities offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation.

You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus or that the information contained in any document incorporated or deemed to be incorporated by reference herein is accurate as of any date other than the date on which that document was filed with the Securities and Exchange Commission (SEC).

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated or deemed to be incorporated by reference herein contain forward-looking statements that involve risks and uncertainties, including those discussed under the caption Risk Factors. We develop forward-looking statements by combining currently available information with our beliefs and assumptions. These statements relate to future events, including our future performance, and often contain words like believe, expect, anticipate, intend, contemplate, seek, plan, estimate and similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Recognize these statements for what they are and do not rely upon them as facts.

We make these statements under the protection afforded them by Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public over the Internet on the SEC's website at <http://www.sec.gov>. In addition, you may inspect our SEC filings at the offices of Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006.

We incorporate by reference into this prospectus the documents listed below and any future filings we make with the SEC (other than information furnished under Item 2.02 or 7.01 in current reports on Form 8-K) under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, including any filings after the date of this prospectus, until we have sold all of the debentures to which this prospectus relates or the offering is otherwise terminated:

Annual Report on Form 10-K for the year ended December 31, 2003;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004;

Current Reports on Form 8-K, filed with the SEC on April 16, 2004, June 28, 2004, June 29, 2004, July 15, 2004 and August 19, 2004; and

The description of our common stock contained in our registration statement on Form 8-A, filed on December 7, 2000, including any amendment or report filed for the purpose of updating such description.

Table of Contents

The information incorporated by reference is an important part of this prospectus. Any statement in a document incorporated by reference into this prospectus will be deemed to be modified or superseded to the extent a statement contained in this prospectus or any other subsequently filed document that is incorporated by reference into this prospectus modifies or supersedes such statement.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address or phone number:

Allscripts Healthcare Solutions, Inc.

2401 Commerce Drive

Libertyville, IL 60048

(847) 680-3515

Attention: Investor Relations

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that Allscripts filed with the Securities and Exchange Commission using a shelf registration or continuous offering process. Under this shelf prospectus, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities the selling securityholders may offer. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus and, in some cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the offering. That prospectus supplement may include a discussion of any risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement.

Table of Contents

SUMMARY

This summary highlights information contained elsewhere in this prospectus and in the documents incorporated by reference herein. Because it is a summary, it does not contain all of the information that you should consider before investing in the debentures. You should read carefully this entire prospectus, including the information under the caption Risk Factors, as well as the documents we have incorporated by reference into this prospectus, including our consolidated financial statements and the related notes.

Allscripts Healthcare Solutions, Inc.

We are 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 and our Advanced Imaging Concepts, Inc. (AIC) electronic document imaging and scanning solutions business. TouchWorks a modular electronic medical record (mEMR) designed to enhance physician productivity using a Tablet PC, wireless handheld device or desktop workstation to automate the most common physician activities. Through our acquisition of AIC in 2003, we offer the industry s leading electronic document imaging and scanning solutions.

Our information services segment is comprised primarily of our Physicians Interactive (PI) business. PI links physicians with pharmaceutical companies and medical product suppliers using interactive education sessions to provide product information to the physician. In 2003, we acquired certain assets and assumed certain liabilities of RxCentric Inc. (RxCentric), a provider of technology-enabled sales and marketing solutions for the pharmaceutical industry. This acquisition has been integrated into our information services segment and has expanded our client base in the United States and provided access to the international market.

Our prepackaged medications segment is comprised of our Allscripts Direct business. Allscripts Direct provides point-of-care medication management solutions for physicians and other healthcare providers.

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.

We are incorporated in the State of Delaware, and our principal executive offices are located at 2401 Commerce Drive, Libertyville, Illinois 60048. Our telephone number is (847) 680-3515,

Table of Contents

and our website address is www.allscripts.com. The information on our website is not a part of this prospectus.

The Offering

<i>Issuer</i>	Allscripts Healthcare Solutions, Inc.
<i>Securities Offered</i>	\$82,500,000 aggregate principal amount of 3.50% Convertible Senior Debentures Due 2024 and the underlying shares of common stock into which the debentures are convertible.
<i>Maturity Date</i>	July 15, 2024
<i>Ranking</i>	<p>The debentures are our general unsecured obligations and rank equally in right of payment with all of our other existing and future unsecured and unsubordinated obligations. As of June 30, 2004, we had no indebtedness for borrowed money outstanding. The debentures will be subordinate in right of payment to any future secured indebtedness that we may incur.</p> <p>The debentures will not be guaranteed by any of our subsidiaries and, accordingly, are effectively subordinated to the indebtedness and other liabilities of our subsidiaries, including trade creditors. As of June 30, 2004, our subsidiaries had no indebtedness for borrowed money outstanding.</p>
<i>Interest</i>	3.50% per year on the principal amount, payable semiannually on July 15 and January 15 of each year, beginning January 15, 2005.
<i>Conversion Rights</i>	<p> Holders may convert debentures prior to stated maturity at a conversion rate of 88.8415 shares of our common stock per \$1,000 of debentures only under the following circumstances:</p> <p> during any fiscal quarter after September 30, 2004, if the last reported sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter is more than 130% of the conversion price on that 30th trading day; or</p> <p> subject to certain exceptions, during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price per debenture for each day of such measurement period was less than 98% of the product of the last reported sale price of our common stock on such day and conversion rate on such day; or</p>

Table of Contents

if we have called those debentures for redemption; or

upon the occurrence of specified corporate transactions described under Description of the Debentures Conversion Rights.

The conversion rate of 88.8415 represents an initial conversion price of \$11.256 per share of common stock. As described in this prospectus, the conversion rate may be adjusted for certain reasons.

Upon conversion, the holder will not receive any cash payment representing accrued and unpaid interest, if any. Instead, any such amounts will be deemed paid by the common stock received by the holder on conversion.

Upon surrender of debentures for conversion, we will have the right to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock.

If the holder elects to convert the debentures in connection with certain corporate transactions that occur on or prior to July 15, 2009, we will in certain circumstances increase the conversion rate by a number of additional shares of common stock upon conversion as described under Description of the Debentures Conversion Rights General.

Debentures called for redemption may be surrendered for conversion until the close of business on the business day prior to the redemption date.

Payment at Maturity

For each \$1,000 principal amount of debentures, the holder will be entitled to receive \$1,000 at maturity, plus accrued interest, if any, and accrued and unpaid liquidated damages, if any.

Sinking Fund

None.

Optional Redemption by Us

We may not redeem the debentures prior to July 20, 2009. We may redeem some or all of the debentures for cash on or after July 20, 2009, upon at least 30 days but not more than 60 days notice by mail to holders of debentures, at a price equal to 100% of the principal amount of the debentures being redeemed, plus accrued and unpaid interest, if any, and accrued and unpaid liquidated damages, if any, to the redemption date.

Table of Contents

<i>Repurchase of Debentures by Us at the Option of the Holder</i>	A holder may require us to repurchase all or a portion of such holder's debentures on July 15, 2009, July 15, 2014 and July 15, 2019 at a price equal to 100% of the principal amount of the debentures being repurchased, plus accrued and unpaid interest, if any, and accrued and unpaid liquidated damages, if any, to the date of repurchase.
<i>Change of Control Put</i>	Upon a change of control (as defined in this prospectus) of Allscripts, a holder may require us, subject to certain conditions, to repurchase all or a portion of such holder's debentures at a price equal to 100% of the principal amount of the debentures being repurchased, plus accrued interest, if any, and accrued and unpaid liquidated damages, if any, to the repurchase date.
<i>Events of Default</i>	If there is an event of default under the debentures, 100% of the principal amount of the debentures, plus accrued and unpaid interest, if any, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.
<i>U.S. Federal Income Tax Considerations</i>	See Certain U.S. Federal Income Tax Considerations.
<i>Use of Proceeds</i>	We will not receive any of the proceeds from the sale by the selling securityholders of the debentures or the shares of our common stock issuable upon conversion of the debentures.
<i>Form, Denomination and Registration</i>	The debentures were issued in fully registered form in denominations of \$1,000 principal amount and integral multiples thereof. The debentures are represented by one or more global debentures deposited with the trustee as custodian for The Depository Trust Company (DTC) and registered in the name of Cede & Co., DTC's nominee. See Description of the Debentures Form, Denomination and Registration.
<i>Trading</i>	The debentures are not listed on any national securities exchange or included in any automated quotation system. The debentures are designated for inclusion in the PORTAL SM market.
<i>Nasdaq Symbol for Our Common Stock</i>	MDRX
<i>Registration Rights</i>	We have filed this shelf registration statement with the SEC with respect to the debentures and the common stock issuable upon conversion of the debentures pursuant to a registration rights agreement. See Description of the Debentures Registration Rights.

Table of Contents

RISK FACTORS

Before investing in the debentures, you should carefully consider the risks described below and the other information included or incorporated by reference in this prospectus.

Risks Related to Our Company

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

Our business model depends on our ability to sell our TouchWorks, Physicians Interactive and AIC 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, Physicians Interactive and AIC 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 if we fail to position our services as a preferred method for pharmaceutical healthcare delivery and information management, our prospects for growth will be diminished.

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

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

We have experienced losses in prior fiscal years and cannot assure you that we will become profitable in the near future, if ever. For the year ended December 31, 2003, we had a net loss of \$5.0 million. For the six month period ended June 30, 2004, we had net earnings of \$963,000. We cannot be certain that we will be able to sustain or increase our profitability in the future.

Table of Contents

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

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

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

In 2001, we entered into a 10-year strategic alliance agreement with IDX Systems Corporation (IDX) pursuant to which Allscripts and IDX agreed to coordinate product development and align our respective marketing processes. Under this agreement, IDX granted us the exclusive right to market, sell, license and distribute ambulatory point-of-care and clinical application products to IDX customers. This agreement does, however, permit IDX's continued development and distribution of its own LastWord (n/k/a CareCast) or radiology products and services, subject to certain limitations. Our business strategy includes targeting current and prospective IDX customers and their affiliates. If we fail to successfully implement that business strategy, we may not be able to achieve projected results. If a material adverse change in our business, properties, results of operations or condition occurs, IDX may terminate the marketing restrictions in this agreement. If the strategic alliance agreement were terminated, our services might not be as attractive to IDX customers and we may not have access to this important customer base. In such an event, IDX might enter into arrangements that would allow our competitors to utilize IDX technology and IDX could compete against us, and we may not be able to align with another company to market and distribute our products on as favorable a basis as that represented by the IDX strategic alliance. If any of these situations were to occur, our expected revenues may be lower, and our business may be harmed. In addition, prior to the termination of this agreement, we cannot allow certain specified IDX direct competitors to market, distribute or sell our services, even if that agreement would benefit our business.

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

Table of Contents

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

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

extend the reach of our products and services to a larger number of physicians and to other participants in the healthcare industry;

develop and deploy new products;

further enhance the Allscripts brand; and

generate additional revenue and cash flows.

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

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

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

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

The successful integration of acquired businesses is critical to our success. Such acquisitions involve numerous risks, including difficulties in the assimilation of the operations, services, products and personnel of the acquired company, the diversion of management's attention from other business concerns, entry into markets in which we have little or no direct prior experience, the potential loss of key employees of the acquired company and our inability to maintain the goodwill of the acquired businesses. If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses.

In order to expand our product and service offerings and grow our business by reaching new customers, we may continue to acquire businesses that we believe are complementary. The

Table of Contents

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

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

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

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

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

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

We will need to expand our operations if we successfully achieve market acceptance for our products and services. We cannot be certain that our systems, procedures, controls and

Table of Contents

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. Difficulties in managing any future growth could have a significant negative impact on our business because we may incur unexpected expenses and be unable to meet our customers' requirements.

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

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

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

Our business plan is predicated on our proprietary systems and technology, including TouchWorks, document imaging and scanning solutions, 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

Table of Contents

might be required for our products or services will be available on commercially reasonable terms, or at all.

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

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

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

We may be liable for use of data we provide.

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

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

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

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

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

Edgar Filing: ALLSCRIPTS HEALTHCARE SOLUTIONS INC - Form S-3

We cannot be certain that additional financing will be available to us on favorable terms, or at all. If adequate financing is not available or is not available on acceptable terms, our ability

Table of Contents

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

We expect to derive a significant portion of our revenue from sales of prepackaged medications to physicians. We may be subject to pricing pressures with respect to our future sales of prepackaged medications arising from various sources, including practices of managed care organizations, Internet pharmacies, including those operating in Canada and other countries foreign to the United States, and government action affecting pharmaceutical reimbursement under Medicare. Our customers and the other entities with which we have a business relationship are affected by changes in regulations and limitations in governmental spending for Medicare and Medicaid programs. Recent actions by Congress could limit government spending for the Medicare and Medicaid programs, limit payments to hospitals and other providers, and increase emphasis on competition and other programs that potentially could have an adverse effect on our customers and the other entities with which we have a business relationship. If our pricing of prepackaged medications experiences significant downward pressure, our business will be less profitable.

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

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

Table of Contents

or all of the payers who currently reimburse physicians decline to do so in the future, utilization of our products and, therefore, our growth will be impaired.

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

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

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.

Risks Related to Our Industry

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

As a participant in the healthcare industry, our operations and relationships are regulated by a number of federal, state and local governmental entities. Because our business relationships with physicians are unique, and the healthcare technology 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. This industry is expected to continue to undergo significant changes for the foreseeable future, which could have an adverse effect on our business, financial condition or results of operations. Future regulation of our business practices or those of our customers may adversely affect us.

Recent government and industry legislation and rulemaking, especially the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and industry groups such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), require the use of standard transactions, standard identifiers, security and other standards and requirements for the transmission of certain electronic health information. New national standards and procedures under HIPAA include the Standards for Electronic Transactions and Code Sets (the Transaction Standards); the Security Standards (the Security Standards); and Standards

Table of Contents

for Privacy of Individually Identifiable Health Information (the Privacy Standards). The Transaction Standards require the use of specified data coding, formatting and content in all specified Health Care Transactions conducted electronically. The Security Standards require the adoption of specified types of security for health care information. The Privacy Standards grant a number of rights to individuals as to their identifiable confidential medical information (called Protected Health Information) and restrict the use and disclosure of Protected Health Information by Covered Entities. Generally, the HIPAA standards directly affect Covered Entities, defined as health care providers, health care payers, and health care clearinghouses. 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. Additionally, Covered Entities will be required to adopt a unique standard National Provider Identifier (NPI), for use in filing and processing health care claims and other transactions. We believe that the principal effects of HIPAA are, or will be, first, to require that our systems be capable of being operated by our customers in a manner that is compliant with the various HIPAA standards and, second, to require us to enter into and comply with Business Associate Agreements with our Covered Entity customers. For most Covered Entities, the deadlines for compliance with the Privacy Standards and the Transaction Standards occurred in 2003. Covered Entities must be in compliance with the Security Standards by April 20, 2005, and must use NPIs in standard transactions no later than the compliance dates, which are May 23, 2007, for all but small health plans and one year later for small health plans. We believe that our systems and products are capable of being used by our customers in compliance with the Transaction Standards and are, or will be, capable of being used by our customers in compliance with the Security Standards and the NPI requirements. 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. Additionally, certain state laws are not pre-empted by the HIPAA Standards and may impose independent obligations upon our customers or us.

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

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

Table of Contents

subject to government regulation. Compliance with these regulations could be burdensome, time-consuming and expensive. We also could become subject to future legislation and regulations concerning the development and marketing of healthcare software systems. These could increase the cost and time necessary to market new services and could affect us in other respects not presently foreseeable. We cannot predict the effect of possible future legislation and regulation.

Claims Transmission. As part of our services provided to physicians, our system will electronically transmit claims for prescription medications dispensed by a physician to many patients' payers for immediate approval and reimbursement. Federal law provides that it is both a civil and a criminal violation for any person to submit 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 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. As part of the operation of our business, our customers provide to us patient identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. 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. Additionally, in the event that the Privacy Standards and other HIPAA compliance requirements change or are interpreted in a way that requires material change to the way in which we do business, it could have a material adverse effect on our business, results of operations and prospects. Additional legislation governing the dissemination of medical record information has been proposed at both the state and federal level. Such legislation may require holders of such information to implement additional security measures that may require substantial expenditures. There can be no assurance that changes to state or federal laws will not materially restrict the ability of providers to submit information from patient records using our products and services.

Table of Contents

Medical Devices. The United States Food and Drug Administration (the FDA) has promulgated a draft policy for the regulation of computer software products as medical devices under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act. To the extent that computer software is a medical device under the policy, we, as a manufacturer of such products, could be required, depending on the product, to:

register and list our products with the FDA;

notify the FDA and demonstrate substantial equivalence to other products on the market before marketing such products; or

obtain FDA approval by demonstrating safety and effectiveness before marketing a product.

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

eDetailing. Our pharmaceutical and medical device clients use PI eDetailing programs to provide physicians with valuable and up-to-date information about various medications and medical products, as well as to collect feedback from physician opinion leaders and other experts. Pharmaceutical marketing activities are subject to various regulatory and compliance initiatives, including a new industry-sponsored ethics initiative developed by the Pharmaceutical Research and Manufacturers of America (PhRMA Code) and the final Compliance Program Guidance for Pharmaceutical Manufacturers issued on April 28, 2003, by the HHS Office of Inspector General (OIG). Such initiatives articulate concerns, recommendations and standards concerning a variety of pharma marketing activities and issues, including kickback concerns, discounts, switching arrangements, research/consulting/advisory payments, and gifts/entertainment/other remuneration, among others. Additionally, as a sender of electronic mail in connection with some of our educational programs, we are

Table of Contents

subject to the CAN-SPAM Act of 2003. We believe that our programs and activities comply with applicable laws and regulations, and are consistent with PhRMA Code and OIG recommendations and standards. However, if our physician educational programs were found to be conducted in a manner inconsistent with such laws, regulations or initiatives, or if we are required to materially change to the way in which we do business in order to conform with such laws, regulations and initiatives, our business, results of operations and prospects would be adversely affected.

Licensure and Physician Dispensing. As a repackager and distributor of drugs, we are subject to regulation by and licensure with the 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. If we do not maintain all necessary licenses, or the FDA decides to substantially modify the manner in which it has historically enforced its good manufacturing practice regulations against drug repackagers or the FDA or DEA finds any violations during one of their periodic inspections, we could be subject to liability, and our operations could be shut down.

While physician dispensing of medications for profit is allowed in most states, as highlighted above, it is possible that certain states may enact legislation or regulations prohibiting, restricting or further regulating physician dispensing. Similarly, while a July 2002 Opinion the American Medical Association's Council on Ethical and Judicial Affairs (CEJA) provides in relevant part that "Physicians may dispense drugs within their office practices provided such dispensing primarily benefits the patient", the AMA has historically taken inconsistent positions on physician dispensing and past Reports of the CEJA have opposed the in-office sale of health-related products by physicians, and it is possible that the CEJA may in the future oppose the in-office sale of health-related products by physicians. Any such state legislative prohibitions or CEJA opposition of physician dispensing could adversely affect us.

Congress enacted significant prohibitions against physician self-referrals in the Omnibus Budget Reconciliation Act of 1993. This law, commonly referred to as Stark II, applies to physician dispensing of outpatient prescription drugs that are reimbursable by Medicare or Medicaid. Stark II, however, includes an exception for the provision of in-office