

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
Form 10-Q
November 06, 2015

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 September 30, 2015

OR

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

Commission file number 001-35547

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 36-4392754
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

222 Merchandise Mart, Suite 2024

Chicago, IL 60654

(Address of Principal Executive Offices, Zip Code)

(312) 506-1200

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 30, 2015, there were 189,015,100 shares of the registrant's \$0.01 par value common stock outstanding.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

FORM 10-Q

For the Fiscal Quarter Ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 91,398	\$ 53,173
Accounts receivable, net of allowance of \$31,182 and \$36,047 as of September 30, 2015		
and December 31, 2014, respectively	324,552	331,625
Deferred taxes, net	35,736	35,615
Prepaid expenses and other current assets	98,511	102,392
Total current assets	550,197	522,805
Long-term marketable securities	0	1,305
Fixed assets, net	127,739	145,830
Software development costs, net	82,249	86,153
Intangible assets, net	360,929	403,362
Goodwill	1,222,823	1,200,746
Deferred taxes, net	708	708
Other assets	328,668	137,760
Total assets	\$ 2,673,313	\$ 2,498,669
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 67,389	\$ 70,824
Accrued expenses	70,654	78,967
Accrued compensation and benefits	47,504	51,062
Deferred revenue	291,251	293,022
Deferred taxes, net	21	21
Current maturities of long-term debt and capital lease obligations	12,696	27,498
Total current liabilities	489,515	521,394
Long-term debt	642,348	539,193
Deferred revenue	21,962	23,168
Deferred taxes, net	60,419	55,437
Other liabilities	63,491	75,257
Total liabilities	1,277,735	1,214,449
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: \$0.01 par value, 1,000 shares authorized,	0	0

no shares issued and outstanding as of September 30, 2015 and December 31, 2014
 Common stock: \$0.01 par value, 349,000 shares authorized as of September 30, 2015
 and

December 31, 2014; 266,226 and 188,989 shares issued and outstanding as of

September 30, 2015, respectively; 265,138 and 180,466 shares issued and
 outstanding

as of December 31, 2014, respectively	2,662	2,651
Treasury stock: at cost, 77,237 and 84,672 as of September 30, 2015 and December 31, 2014, respectively	(189,753)	(278,036)
Additional paid-in capital	1,782,081	1,749,593
Accumulated deficit	(206,562)	(188,009)
Accumulated other comprehensive loss	(3,989)	(1,979)
Total Allscripts Healthcare Solutions, Inc.'s stockholders' equity	1,384,439	1,284,220
Non-controlling interest	11,139	0
Total stockholders' equity	1,395,578	1,284,220
Total liabilities and stockholders' equity	\$ 2,673,313	\$ 2,498,669

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue:				
Software delivery, support and maintenance	\$230,754	\$228,048	\$690,783	\$680,462
Client services	123,722	117,341	349,963	356,508
Total revenue	354,476	345,389	1,040,746	1,036,970
Cost of revenue:				
Software delivery, support and maintenance	70,775	77,421	223,188	235,864
Client services	109,006	115,930	327,790	329,951
Amortization of software development and acquisition-related assets	21,347	20,582	63,006	61,525
Total cost of revenue	201,128	213,933	613,984	627,340
Gross profit	153,348	131,456	426,762	409,630
Selling, general and administrative expenses	91,043	97,034	259,821	273,643
Research and development	47,702	45,962	138,796	151,283
Asset impairment charges	22	188	341	2,134
Amortization of intangible and acquisition-related assets	5,712	7,112	19,039	22,414
Income (loss) from operations	8,869	(18,840)	8,765	(39,844)
Interest expense	(9,254)	(7,542)	(23,993)	(22,005)
Other income, net	423	171	2,281	369
Equity in net earnings of unconsolidated investments	(1,479)	0	(1,303)	0
Loss before income taxes	(1,441)	(26,211)	(14,250)	(61,480)
Income tax (provision) benefit	(3,692)	448	(4,183)	(2,795)
Net loss	(5,133)	(25,763)	(18,433)	(64,275)
Less: Net income attributable to non-controlling interest	(111)	0	(120)	0
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders	\$(5,244)	\$(25,763)	\$(18,553)	\$(64,275)
Loss per share - basic and diluted attributable to Allscripts Healthcare Solutions, Inc. stockholders				
	\$(0.03)	\$(0.15)	\$(0.10)	\$(0.36)

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)	Three Months		Nine Months Ended	
	Ended September 30, 2015	2014	September 30, 2015	2014
Net loss	\$(5,133)	\$(25,763)	\$(18,433)	\$(64,275)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,482)	(824)	(1,873)	96
Change in unrealized gains on marketable securities	0	13	(228)	30
Change in fair value of derivatives qualifying as cash flow hedges	(225)	110	5	427
Other comprehensive (loss) income before income tax expense				
(benefit)	(1,707)	(701)	(2,096)	553
Income tax benefit (expense) related to items in other comprehensive				
income (loss)	88	(48)	86	(179)
Total other comprehensive (loss) income	(1,619)	(749)	(2,010)	374
Comprehensive loss	(6,752)	(26,512)	(20,443)	(63,901)
Less: Comprehensive income (loss) attributable to non-controlling				
interest	(111)	0	(120)	0
Comprehensive loss attributable to Allscripts Healthcare Solutions, Inc.				
stockholders	\$(6,863)	\$(26,512)	\$(20,563)	\$(63,901)

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine Months Ended	
	September 30, 2015	2014
Cash flows from operating activities:		
Net loss	\$(18,433)	\$(64,275)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	124,486	131,546
Stock-based compensation expense	27,225	32,203
Excess tax benefits from stock-based compensation	(346)	(2,246)
Deferred taxes	2,323	5,996
Asset impairment charges	341	2,134
Other losses, net	2,288	3,214
Changes in operating assets and liabilities (net of businesses acquired):		
Accounts receivable, net	7,060	(22,287)
Prepaid expenses and other assets	11,730	(16,180)
Accounts payable	(2,050)	13,651
Accrued expenses	(17,789)	(22,120)
Accrued compensation and benefits	(4,672)	(24,896)
Deferred revenue	(2,760)	20,732
Other liabilities	(1,090)	(5,469)
Net cash provided by operating activities	128,313	52,003
Cash flows from investing activities:		
Capital expenditures	(14,211)	(20,656)
Capitalized software	(32,696)	(28,318)
Purchase of controlling interest, net of cash acquired	(9,372)	(20,180)
Purchases of non-marketable securities, other investments and related intangible assets	(212,654)	(21,544)
Sales and maturities of marketable securities and other investments	3,763	39
Proceeds received from sale of fixed assets	15	86
Net cash used in investing activities	(265,155)	(90,573)
Cash flows from financing activities:		
Proceeds from sale or issuance of common stock	102,091	1,670
Excess tax benefits from stock-based compensation	346	2,246
Taxes paid related to net share settlement of equity awards	(5,714)	(8,891)
Payments of capital lease obligations	(311)	(337)
Credit facility payments	(189,912)	(73,751)
Credit facility borrowings	269,719	91,964
Net cash provided by financing activities	176,219	12,901

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Effect of exchange rate changes on cash and cash equivalents	(1,152)	60
Net increase (decrease) in cash and cash equivalents	38,225	(25,609)
Cash and cash equivalents, beginning of period	53,173	62,954
Cash and cash equivalents, end of period	\$91,398	\$37,345

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries and majority-owned affiliates. All significant intercompany balances and transactions have been eliminated. Each of the terms “we,” “us,” “our” or the “Company” as used herein refers collectively to Allscripts Healthcare Solutions, Inc. and its wholly-owned and majority-owned subsidiaries, unless otherwise stated.

Reclassification

During the three months ended March 31, 2015, we adopted a revised presentation of revenue and the associated cost of revenue in our consolidated statements of operations, which we believe is better aligned with and representative of the amount and profitability of our overall software and services revenue streams, as well as with the way we manage our business, review our operating performance and market our products. In recent years, we have experienced a continued shift in customer preferences from up-front software license agreements, and associated support and maintenance, to subscription-based agreements. Under our previous presentation, the revenue and cost of revenue of each of these types of agreements were reported under separate revenue categories. By combining these separate revenue categories, we believe that our revised presentation better reflects the overall trend in our software delivery, support and maintenance revenue.

Under the revised presentation, revenue is reported based on two categories: (i) software delivery, support and maintenance, and (ii) client services. Previously, revenue was presented based on four categories: system sales, professional services, maintenance, and transaction processing and other. Software delivery, support and maintenance revenue consists of our previous system sales, maintenance and transaction processing and other revenue categories, excluding outsourcing and remote hosting managed services revenue previously included in transaction processing and other revenue. Client services revenue consists of our previous professional services category and outsourcing and remote hosting managed services revenue. The comparable 2014 periods were revised for the new presentation. Total revenue and cost of revenue previously reported for the three and nine months ended September 30, 2014 were not affected by this change in presentation.

Unaudited Interim Financial Information

The unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2015 have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These interim consolidated financial statements are unaudited and, in the opinion of our management, include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the consolidated financial statements for the periods presented in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with the SEC's rules and regulations for interim reporting, although the Company believes that the disclosures made are adequate to make that information not misleading. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 (our "Form 10-K").

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.

Significant Accounting Policies

There have been no changes to our significant accounting policies from those disclosed in our Form 10-K.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 changes the presentation of debt issuance costs by requiring that such costs be presented on the balance sheet as a direct deduction from the related debt liability, rather than as an asset. The new accounting guidance is to be applied retrospectively and early application is permitted. We adopted the new guidance during the three months ended June 30, 2015. The adoption of this accounting guidance resulted in the reclassification, for presentation purposes only, of approximately \$9.5 million of debt issuance costs from other assets to long-term debt in our consolidated balance sheet as of December 31, 2014.

Accounting Pronouncements Not yet Adopted

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (“ASU 2014-09”), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard permits the use of either the retrospective or cumulative effect transition methods. As issued, ASU 2014-09 is effective for us for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. On August 12, 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, while also permitting companies to voluntarily adopt the new revenue standard as of the original effective date. We are currently in the process of evaluating this new guidance, including selecting the method and timing of adoption.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for us for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, and early adoption is permitted. This new guidance is not expected to have a material impact on our consolidated financial statements.

We do not believe that any other recently issued, but not yet effective accounting standards, if adopted, would have a material impact on our consolidated financial statements.

2. Fair Value Measurements and Investments

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair values of assets and liabilities required to be measured at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value in one of the following three categories:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Our Level 1 investments include money market funds valued daily by the fund companies, and the valuation is based on the publicly reported net asset value of each fund. There were no outstanding money market funds investments as of September 30, 2015 and December 31, 2014.

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. Our Level 2 non-derivative investments include marketable securities, which consist of mortgage and asset-backed bonds. We sold all of our marketable securities during the three months ended March 31, 2015. Prior to the sale, marketable securities were recorded at fair value determined using a market approach, based on prices and other relevant information generated by market transactions involving identical or comparable assets which are considered to be Level 2 inputs. Our Level 2 derivative financial instruments include foreign currency forward contracts valued based upon observable values of spot and forward foreign currency exchange rates. Refer to Note 8, "Derivative Financial Instruments," for further information regarding these derivative financial instruments.

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. Our Level 3 financial instruments include derivative financial instruments comprising the 1.25% Call Option (as defined in Note 8, "Derivative Financial Instruments") asset and the 1.25% embedded cash conversion option liability. Refer to Note 8, "Derivative Financial Instruments," for further information regarding these derivative financial instruments. These derivatives are not actively traded and are valued based on an option pricing model that uses observable and unobservable market data for inputs. Significant market data inputs used to determine the fair value as of September 30, 2015 and December 31, 2014 included our common stock price, time to maturity of the derivative instruments, the risk-free interest rate, and the implied volatility of our common stock. The 1.25% Call Option asset and the 1.25% embedded cash conversion option liability were designed with the intent that changes in their fair values would substantially offset, with limited net impact to our earnings. Therefore, we believe the sensitivity of changes in the unobservable inputs to the option pricing model for these instruments is substantially mitigated.

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of the respective balance sheet dates:

(In thousands)	Balance Sheet Classifications	September 30, 2015				December 31, 2014			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Marketable securities	Long-term marketable securities	\$0	\$0	\$0	\$0	\$0	\$1,305	\$0	\$1,305
1.25% Call Option	Other assets	0	0	48,669	48,669	0	0	57,091	57,091
1.25% Embedded cash conversion option	Other liabilities	0	0	(49,449)	(49,449)	0	0	(57,839)	(57,839)
Foreign exchange derivative assets	Prepaid expenses and other current assets	0	171	0	171	0	0	0	0
Foreign exchange derivative liabilities	Accrued expenses	0	(166)	0	(166)	0	0	0	0
Total		\$0	\$5	\$(780)	\$(775)	\$0	\$1,305	\$(748)	\$557

On June 26, 2015 we purchased 59,099,908 Series G Units of Nant Health, LLC ("NantHealth"), a cloud-based information technology company that offers comprehensive genomic and protein-based molecular diagnostic testing, for approximately \$200.0 million and incurred approximately \$5.4 million of transaction-related expenses, resulting in a total investment of approximately \$205.4 million. This investment represents a 10% ownership stake, excluding authorized but unissued common units of NantHealth, and is accounted for under the equity method. Additionally, the carrying amount of our investment exceeded the amount of our share of underlying equity in net assets of NantHealth by approximately \$200 million at September 30, 2015. The excess carrying value over the underlying equity in net

assets of NantHealth is primarily comprised of amortizable intangible assets and nonamortizable goodwill. During the three months ended September 30, 2015, we recorded a loss of \$1.5 million representing our share of equity loss of NantHealth based on a one quarter reporting lag and the amortization of cost basis differences.

On April 17, 2015 we acquired a majority interest in a third party for approximately \$11.1 million, and provided a loan to the third party of approximately \$9.3 million to refinance its outstanding indebtedness. The financial results of this third party were consolidated with our financial results starting on the date of the transaction, with a proportionate share allocated to minority interest. The allocations of the estimated fair value of the net assets of the third party to goodwill, intangibles and non-controlling interest were approximately \$22.3 million, \$4.3 million and \$11.0 million, respectively.

During 2014, we acquired certain non-marketable equity securities of four third parties and entered into new, or amended existing, commercial agreements with each of those third parties to license and distribute their products and services, for a total consideration of approximately \$21.1 million. The equity investments and the commercial agreements were valued at approximately \$19.2 million and \$1.9 million, respectively. Three of the equity investments acquired during 2014 are accounted for under the cost method, and one of the equity investments is accounted for under the equity method. During the three months ended September 30, 2015, we invested an additional \$0.3 million in one of the third parties. This additional investment is accounted for under the equity method. The carrying values of the cost method investments were \$17.8 million as of both September 30, 2015 and December 31, 2014. The carrying values of the equity method investments were approximately \$1.4 million and \$1.0 million, respectively, as of September 30, 2015 and December 31, 2014. These carrying values are included in other assets and the carrying value of the above-referenced commercial agreements is included in intangible assets, net, in the accompanying consolidated balance sheets as of September 30, 2015 and December 31, 2014. As of September 30, 2015, it is not practicable to estimate the fair value of our equity investments primarily because of their illiquidity and restricted marketability. The factors we considered in trying to determine fair value include, but are not limited to, available financial information, the issuer's ability to meet its current obligations and the issuer's subsequent or planned raises of capital.

Our long-term financial liabilities include amounts outstanding under our senior secured credit facility, with carrying values that approximate fair value since the interest rates approximate current market rates. In addition, the carrying amount of our 1.25% Cash Convertible Senior Notes (the “1.25% Notes”) approximates fair value as of September 30, 2015, since the effective interest rate on the 1.25% Notes approximates current market rates. See Note 6, “Debt,” for further information regarding our long-term financial liabilities.

3. Stockholders' Equity

Stock-based Awards

We measure stock-based compensation expense at the grant date based on the fair value of the award. We recognize the expense for service-based share awards over the requisite service period on a straight-line basis, net of estimated forfeitures. We recognize the expense for performance-based and market-based share awards over the vesting period under the accelerated attribution method, net of estimated forfeitures. In addition, we recognize stock-based compensation cost for awards with performance conditions if and when we conclude that it is probable that the performance conditions will be achieved.

The fair value of service-based restricted stock units and restricted stock awards is measured at the underlying closing share price of our common stock on the date of grant. The fair value of market-based restricted stock units is measured using the Monte Carlo pricing model. No stock options were granted during the three and nine months ended September 30, 2015 and 2014.

Stock-based compensation expense recognized during the three and nine months ended September 30, 2015 and 2014 is included in our consolidated statements of operations as shown in the below table. No stock-based compensation costs were capitalized during the three and nine months ended September 30, 2015 and 2014.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of revenue:				
Software delivery, support and maintenance	\$972	\$340	\$3,247	\$1,271
Client services	824	995	3,554	3,449
Total cost of revenue	1,796	1,335	6,801	4,720
Selling, general and administrative expenses	5,649	7,881	15,860	20,999
Research and development	1,747	839	6,067	6,484
Total stock-based compensation expense	\$9,192	\$10,055	\$28,728	\$32,203

We granted stock-based awards as follows:

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Service-based restricted stock units	31	\$ 14.22	2,092	\$ 11.92
Performance-based restricted stock units with a service	0	\$ 0.00	292	\$ 12.17

condition				
Market-based restricted stock units with a service				
condition	0	\$ 0.00	497	\$ 12.53
	31	\$ 14.22	2,881	\$ 12.05

During the nine months ended September 30, 2015 and the year ended December 31, 2014, approximately 1.1 million and 1.7 million shares of stock, respectively, were issued in connection with the exercise of options and the release of restrictions on stock awards.

Net Share-settlements

Beginning in 2011, upon vesting, restricted stock units and awards are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The majority of restricted stock units and awards that vested in 2015 and 2014 were net-share settled such that we withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total payments for the employees' minimum statutory tax obligations to the taxing authorities are reflected as a financing activity within the accompanying consolidated statements of cash flows. The total shares withheld for the nine months ended September 30, 2015 and 2014 were 433 thousand and 549 thousand, respectively, and were based

on the value of the restricted stock units and awards on their vesting date as determined by our closing stock price. These net-share settlements had the effect of share repurchases by us as they reduced the number of shares that would have otherwise been issued as a result of the vesting.

Issuance of Common Stock and Warrants

On June 26, 2015, we sold 7,434,944 unregistered shares of our common stock previously held as treasury shares and issued warrants to purchase 1,486,989 shares of our common stock to Nant Capital, LLC in a private placement exempt from registration pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended. These transactions were meant to strengthen our strategic and commercial relationship with NantHealth and were made in conjunction with our investment in NantHealth as of the same date (refer to Note 2, "Fair Value Measurements and Investments"). The common stock shares were sold at a price of \$13.45 per share, being the average closing price per share of our common stock on the NASDAQ Global Select Market for the 60 consecutive trading day period ending on and including June 24, 2015, for an aggregate purchase price of approximately \$100.0 million. Each warrant has an exercise price equal to \$17.675 per share of common stock, subject to customary anti-dilution adjustments. The warrants may be exercised from time to time beginning on the date of issuance and expiring 18 months after the date of issuance. The total proceeds of \$100.0 million were allocated to the common stock shares and the warrants in the amounts of approximately \$98.3 million and \$1.7 million, respectively.

In June 2013, we agreed to issue a warrant to a commercial partner as part of an overall commercial relationship pursuant to which the warrant holder has the right to purchase 1.5 million shares of our common stock at a strike price of \$12.94 per share. The warrant vests in four equal annual installments of 375 thousand shares (beginning in June 2014) and expires in June 2020. Our issuance of the warrant was a private placement exempt from registration pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended. This warrant is not actively traded and was valued based on an option pricing model that uses observable and unobservable market data for inputs. The warrant was valued at approximately \$10.2 million and is being amortized into earnings over the four year vesting period. The amortization of the warrant value is included in stock-based compensation expense in the accompanying consolidated statements of cash flows.

4. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average shares of common stock outstanding. For purposes of calculating diluted earnings (loss) per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive common stock equivalents. Dilutive common stock equivalents consist of stock options, restricted stock unit awards and warrants calculated under the treasury stock method.

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The calculations of earnings (loss) per share are as follows:

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Basic Loss per Common Share:				
Net loss	\$(5,133)	\$(25,763)	\$(18,433)	\$(64,275)
Less: Net income attributable to non-controlling interest	\$(111)	\$0	\$(120)	\$0
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders	\$(5,244)	\$(25,763)	\$(18,553)	\$(64,275)
Weighted-average common shares outstanding	188,944	180,189	183,725	179,691
Basic Loss per Common Share	\$(0.03)	\$(0.15)	\$(0.10)	\$(0.36)
Diluted Loss per Common Share:				
Net loss	\$(5,133)	\$(25,763)	\$(18,433)	\$(64,275)
Less: Net income attributable to non-controlling interest	\$(111)	\$0	\$(120)	\$0
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders	\$(5,244)	\$(25,763)	\$(18,553)	\$(64,275)
Weighted-average common shares outstanding	188,944	180,189	183,725	179,691
Dilutive effect of stock options, restricted stock unit awards and warrants	0	0	0	0
Weighted-average common shares outstanding assuming dilution	188,944	180,189	183,725	179,691
Diluted Loss per Common Share	\$(0.03)	\$(0.15)	\$(0.10)	\$(0.36)

As a result of the net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders for the three and nine months ended September 30, 2015 and 2014, we used basic weighted-average common shares outstanding in the calculation of diluted loss per share for each of these periods, since the inclusion of any stock equivalents would be anti-dilutive.

The following stock options, restricted stock unit awards and warrants are not included in the computation of diluted earnings (loss) per share as the effect of including such stock options, restricted stock unit awards and warrants in the computation would be anti-dilutive:

(In thousands)	Three Months		Nine Months	
	Ended September 30, 2015	2014	Ended September 30, 2015	2014
Shares subject to anti-dilutive stock options, restricted stock unit awards and warrants excluded from calculation	23,562	24,177	25,359	24,314

5. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following:

(In thousands)	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangibles subject to amortization:						
Proprietary technology	\$450,964	\$ (294,658)	\$ 156,306	\$451,087	\$ (267,547)	\$ 183,540
Customer contracts and relationships	554,399	(401,776)	152,623	550,287	(382,465)	167,822
Total	\$1,005,363	\$ (696,434)	\$ 308,929	\$1,001,374	\$ (650,012)	\$ 351,362
Intangibles not subject to amortization:						
Registered trademarks			\$ 52,000			\$ 52,000
Goodwill			1,222,823			1,200,746
Total			\$1,274,823			\$ 1,252,746

We revised our reportable segments effective January 1, 2015. Our revised reportable segments are (i) Clinical and Financial Solutions and (ii) Population Health. Refer to Note 11, "Business Segments" for additional information.

As a result of the revision of our reportable segments, we assessed our revised reporting units and allocated goodwill previously assigned to our former Outsourcing and Remote Hosting reporting units to our other reporting units. The allocated goodwill balances could be attributed to specific services associated with products purchased as part of businesses we previously acquired and, therefore, were allocated to the reporting units where such products are currently managed and sold. The resulting allocation of goodwill to our revised reportable segments is shown below.

We performed our annual goodwill impairment test as of October 1, 2014, our annual testing date, and again as of January 1, 2015 in conjunction with the revision of our reportable segments and related allocation of goodwill to our revised reporting units. The fair value of each reporting unit substantially exceeded its carrying value and no indicators of impairment were identified as a result of both tests.

Changes in the carrying amounts of goodwill by reportable segment for the nine months ended September 30, 2015 were as follows:

(In thousands)	Clinical and Financial Solutions		Population Health	Total
Balance as of December 31, 2014	\$774,512	\$426,234		\$1,200,746
Other additions	22,319	0		22,319
Foreign exchange translation	(242)	0		(242)
Balance as of September 30, 2015	\$796,589	\$426,234		\$1,222,823

Other additions relate to goodwill arising from our acquisition of a majority interest in a third party during the three months ended June 30, 2015. During the three months ended September 30, 2015, we finalized the allocation of the fair value of the acquisition consideration. Refer to Note 2, "Fair Value Measurements and Investments" for additional information.

There were no accumulated impairment losses associated with our goodwill as of September 30, 2015 or December 31, 2014.

6. Debt

Debt outstanding, excluding capital leases, consisted of the following:

(In thousands)	September 30, 2015			December 31, 2014		
	Principal Balance	Unamortized Discount and Debt Issuance Costs	Net Carrying Amount	Principal Balance	Unamortized Discount and Debt Issuance Costs	Net Carrying Amount
1.25% Cash Convertible Senior Notes	\$345,000	\$ 64,806	\$280,194	\$345,000	\$ 73,765	\$271,235
Senior Secured Credit Facility (long-term portion)	367,664	5,542	362,122	272,410	4,452	267,958
Senior Secured Credit Facility (current portion)	12,500	485	12,015	28,125	892	27,233
Other debt	188	0	188	0	0	0
Total debt	\$725,352	\$ 70,833	\$654,519	\$645,535	\$ 79,109	\$566,426

Interest expense consisted of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest expense	\$4,370	\$4,190	\$12,239	\$12,074
Amortization of discounts and debt issuance costs	3,508	3,352	10,321	9,931
Write off of unamortized deferred debt issuance costs	1,376	0	1,433	0
Total interest expense	\$9,254	\$7,542	\$23,993	\$22,005

Interest expense related to the 1.25% Notes was comprised of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Coupon interest at 1.25%	\$1,078	\$1,078	\$3,234	\$3,234
Amortization of discounts and debt issuance costs	3,035	2,893	8,960	8,541
Total interest expense related to the 1.25% Notes	\$4,113	\$3,971	\$12,194	\$11,775

Senior Secured Credit Facility Amendment

On September 30, 2015, we entered into a Replacement Facility Amendment (the “2015 Credit Agreement”) to our existing Credit Agreement, dated as of June 28, 2013, as amended on June 8, 2015, with a syndicate of financial institutions and JPMorgan Chase Bank, N.A., as administrative agent. The 2015 Credit Agreement provides for a \$250 million senior secured term loan (the “Term Loan”) and a \$550 million senior secured revolving facility (the “Revolving Facility”), each with a five year term (collectively the “Senior Secured Credit Facility”). These amounts represent increases in total borrowing limits of \$25 million and \$125 million, respectively, compared with our existing Credit Agreement. The Term Loan is repayable in quarterly installments commencing on December 31, 2015 and ending on September 30, 2020. A total of up to \$50 million of the Revolving Facility is available for the issuance of letters of credit, up to \$10 million of the Revolving Facility is available for swingline loans, and up to \$100 million of the

Revolving Facility could be borrowed under certain foreign currencies.

Proceeds from the borrowings under the 2015 Credit Agreement were used for the refinancing of the term loan and revolving facility under our existing Credit Agreement. The proceeds of the Revolving Facility can be used to finance our working capital needs and for general corporate purposes, including financing of permitted acquisitions, share repurchases, and other investments. We may also request to add one or more incremental revolving and/or term loan facilities in an aggregate amount of up to \$300 million, subject to certain conditions.

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Borrowings under the Senior Secured Credit Facility bear interest, at our option, at a rate per annum equal to either (1) the rate (adjusted for statutory reserve requirements for eurocurrency liabilities and mandatory costs, if any) for deposits in the applicable currency for a period equal to one, two, three or six months or, with respect to loans under the Revolving Facility denominated in United States dollars, subject to availability to all affected lenders, 7 days (as selected by us), appearing on pages LIBOR01, LIBOR02, EURIBOR01, as applicable, or other page displaying such rate for such currency of the Reuters Screen (the “Eurocurrency Rate”) plus the applicable margin or (2) the highest of (a) the rate of interest publicly announced by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City, (b) the federal funds effective rate from time to time plus 0.5%, and (c) the Eurocurrency Rate for United States dollars for a one month interest period plus 1.0% (the “Base Rate”), plus, in each case, the applicable margin. The initial applicable interest rate margin for Base Rate borrowings is 1.25%, and for Eurocurrency Rate borrowings is 2.25%. On and after September 30, 2015, the applicable interest rate margins will be determined from a pricing table and will depend upon our total leverage ratio. The applicable interest rate margins under the 2015 Credit Agreement for Base Rate borrowings range from 0.00% to 1.25% and for Eurocurrency Rate loans range from 1.00% to 2.25%. These ranges are 50 basis points lower at each level of the leverage-based pricing grid compared with our existing Credit Agreement.

Subject to certain agreed upon exceptions, all obligations under the Senior Secured Credit Facility remain guaranteed by each of our existing and future direct and indirect material domestic subsidiaries other than Coniston Exchange LLC and certain domestic subsidiaries owned by our foreign subsidiaries (the “Guarantors”) pursuant to a related Guarantee and Collateral Agreement, dated as of June 28, 2013, among Allscripts Healthcare Solutions, Inc., Allscripts Healthcare, LLC, certain of our other subsidiaries, and JPMorgan Chase Bank, N.A., as administrative agent. Our obligations under the Senior Secured Credit Facility, any swap agreements and any cash management arrangements provided by any lender, remain secured, subject to permitted liens and other agreed upon exceptions, by a perfected first priority security interest in all of the tangible and intangible assets (including, without limitation, intellectual property, material owned real property and all of the capital stock of each Guarantor and, in the case of foreign subsidiaries, up to 65% of the capital stock of first tier material foreign subsidiaries) of Allscripts Healthcare Solutions, Inc. and the Guarantors.

The Senior Secured Credit Facility requires us to maintain a minimum interest coverage ratio of 4.0 to 1.0, a maximum total leverage ratio of 4.0 to 1.0 and a maximum senior secured leverage ratio of 3.0 to 1.0. The minimum interest coverage ratio is calculated by dividing earnings before interest expense, income tax expense, depreciation and amortization expense by cash interest expense, subject to various agreed upon adjustments. The total leverage ratio is calculated by dividing total indebtedness by earnings before interest expense, income tax expense, depreciation and amortization expense, subject to various agreed upon adjustments. The senior secured leverage ratio is calculated by dividing senior secured indebtedness by earnings before interest expense, income tax expense, depreciation and amortization expense, subject to various agreed upon adjustments. The 2015 Credit Agreement also provides that during the four quarter period following permitted acquisitions that are financed in whole or in part with indebtedness and the consideration paid by us is \$100 million or more, we are required to maintain a maximum total leverage ratio of 4.5 to 1.0 and a maximum senior secured leverage ratio of 3.25 to 1.0. In addition, the 2015 Credit Agreement requires mandatory prepayments of the debt outstanding under the Senior Secured Credit Facility in certain specific circumstances, and contains a number of covenants which, among other things, restrict our ability to incur additional indebtedness, engage in mergers, or declare dividends or other payments in respect of our capital stock.

The Senior Secured Credit Facility also contains certain customary events of default, including relating to non-payment, breach of covenants, cross-default, bankruptcy and change of control.

In connection with our entry into the 2015 Credit Agreement, during the three months ended September 30, 2015, we incurred fees and other costs totaling approximately \$3.0 million, of which approximately \$2.7 million were capitalized and included in the net carrying amounts outstanding under the Senior Secured Credit Facility as of September 30, 2015. In addition, approximately \$3.3 million of deferred costs associated with our existing Credit Facility carried over to the 2015 Credit Agreement. Also, in connection with our entry into the 2015 Credit

Agreement, approximately \$1.1 million of deferred costs associated with our existing Credit Agreement and approximately \$0.3 million of fees and other costs associated with the 2015 Credit Agreement were written off to interest expense and are included in other losses, net in the accompanying consolidated statement of cash flows for the nine months ended September 30, 2015.

As of September 30, 2015, approximately \$250.0 million under the Term Loan, \$130.2 million under the Revolving Facility, and \$0.7 million in letters of credit were outstanding under the 2015 Credit Agreement. Borrowings under the Revolving Facility as of such date consisted of \$115.0 million denominated in United States dollars and \$15.2 million, or the equivalent of 10.0 million British Pound Sterling, denominated in a foreign currency. The increase in the principal balance outstanding under the Senior Secured Credit Facility at September 30, 2015 compared with December 31, 2014 was primarily driven by \$100.0 million borrowed under the Revolving Facility during the three months ended June 30, 2015 to finance a portion of our investment in NantHealth. Refer to Note 2, "Fair Value Measurements and Investments" for additional information about this transaction.

As of September 30, 2015, the interest rate on the United States dollars-denominated borrowings under the Senior Secured Credit Facility was LIBOR plus 2.25%, which totaled 2.44%, and the interest rate on the British Pound Sterling-denominated borrowings was 2.84%. We were in compliance with all covenants under the Senior Secured Credit Facility agreement as of September 30, 2015. The net carrying amounts of debt outstanding as of December 31, 2014 were adjusted to reflect the reclassification of approximately \$9.5 million of deferred debt issuance costs previously included within other assets on our consolidated balance sheet as of December 31, 2014 as a result of adopting ASU 2015-03 during the three months ended June 30, 2015.

As of September 30, 2015, we had approximately \$419.2 million available, net of outstanding letters of credit, under the Revolving Facility. There can be no assurance that we will be able to draw on the full available balance of the Revolving Facility if the financial institutions that have extended such credit commitments become unwilling or unable to fund such borrowings.

As of September 30, 2015, the if-converted value of the 1.25% Notes did not exceed the 1.25% Notes' principal amount.

The following table summarizes our future payment obligations under the 1.25% Notes and the Senior Secured Credit Facility as of September 30, 2015:

(In thousands)	Total	Remainder of 2015	2016	2017	2018	2019	2020
1.25% Cash Convertible Senior							
Notes ⁽¹⁾	\$345,000	\$ 0	\$0	\$0	\$0	\$0	\$345,000
Term Loan	250,000	3,125	12,500	15,625	28,125	40,625	150,000
Revolving Facility	130,164	0	0	0	0	0	130,164
Other debt	188	32	156	0	0	0	0
Total debt	\$725,352	\$ 3,157	\$12,656	\$15,625	\$28,125	\$40,625	\$625,164

⁽¹⁾ Assumes no cash conversions of the 1.25% Notes prior to their maturity on July 1, 2020.

7. Income Taxes

We account for income taxes under FASB Accounting Standards Codification 740, Income Taxes ("ASC 740"). We calculate the quarterly tax provision consistent with the guidance provided by ASC 740-270, whereby we forecast the estimated annual effective tax rate and then apply that rate to the year-to-date pre-tax book (loss) income. The effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective rate, including factors such as the valuation allowances against deferred tax assets, the recognition or de-recognition of tax benefits related to uncertain tax positions, or changes in or the interpretation of tax laws in jurisdictions where the Company conducts business. There is no tax benefit recognized on certain of the net operating losses incurred due to insufficient evidence supporting the Company's ability to use these losses in the future. The effective tax rates were as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Loss before income taxes	\$(1,441)	\$(26,211)	\$(14,250)	\$(61,480)
Income tax (provision) benefit	\$(3,692)	\$448	\$(4,183)	\$(2,795)

Effective tax rate	NM	1.7	%	(29.4	%)	(4.5	%)
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NM – We define “NM” as not meaningful for increases or decreases greater than 200%.

Our effective tax rates for the three and nine months ended September 30, 2015, compared with the prior year comparable periods, differ primarily due to the timing of recognition of permanent items, such as non-deductible meals and entertainment and officer compensation, and the impacts of foreign operations on the lower pre-tax losses for the current periods as compared with the prior year comparable periods. In addition, the income tax provision for the three and nine months ended September 30, 2015 includes an approximately \$5.9 million valuation allowance against federal and foreign net operating loss carryforwards, as compared with valuation allowances of approximately \$6.3 million and \$24.1 million, respectively, recorded in the comparable 2014 periods. As of the date of this Form 10-Q, the research and development credit had not been reinstated for 2015 and future years; therefore, no estimate for this credit has been included in our effective tax rate for 2015.

In evaluating our ability to recover our deferred tax assets within the jurisdictions from which they arise, we consider all available evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, and results of recent operations. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss). The additional valuation allowance recorded during the three and nine months ended September 30, 2015 related to deferred tax assets associated with net operating loss carryforwards.

Our unrecognized income tax benefits were \$10.7 million and \$15.3 million as of September 30, 2015 and December 31, 2014, respectively. If any portion of our unrecognized tax benefits is recognized, it could impact our effective tax rate. The tax reserves are reviewed periodically and adjusted in light of changing facts and circumstances, such as progress of tax audits, lapse of applicable statutes of limitations, and changes in tax law.

During the three months ended September 30, 2015, we concluded our IRS audit for all open years through December 31, 2012. The conclusion of this audit provided us with confirmation about the net operating loss carryforwards actual balance as of December 31, 2012. As a result, we recognized certain unrecognized income tax benefits totaling approximately \$4.0 million during the three months ended September 30, 2015. The recognition of these benefits did not impact our effective tax rate due to the valuation allowance. We were not able to obtain confirmation regarding the actual balance of our research and development credit carryforwards because none of these research and development credits have been utilized against any tax liability as of the date of this Form 10-Q. Therefore, our analysis of eligible research and development credit carryforwards remains unchanged.

8. Derivative Financial Instruments

The following tables provide information about the fair values of our derivative financial instruments as of the respective balance sheet dates:

(In thousands)	September 30, 2015		September 30, 2015	
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives qualifying as cash flow hedges:				
Foreign exchange contracts	Prepaid expenses and			
	other current assets	\$ 171	Accrued expenses	\$ 166
Derivatives not subject to hedge accounting:				
1.25% Call Option	Other assets	48,669		