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, 2007

OR

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

Commission file number 000-32085

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-4392754**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

222 Merchandise Mart, Suite 2024

Chicago, IL 60654

(Address of principal executive offices)

(866) 358-6869

(Registrant s telephone number, including area code)

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

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

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

As of October 31, 2007, there were 56,784,161 shares of the registrant s $0.01 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$31,968	$42,461
Marketable securities	28,384	14,553
Accounts receivable, net of allowances of $3,511 and $4,234 at September 30, 2007 and December 31, 2006, respectively	81,225	55,579
Deferred taxes, net	24,391	27,437
Inventories	4,370	3,247
Prepaid expenses and other current assets	16,920	10,620
Total current assets	187,258	153,897
Long-term marketable securities	14,673	26,024
Fixed assets, net	16,662	14,094
Software development costs, net	19,720	12,285
Intangible assets, net	74,717	78,050
Goodwill	181,397	188,261
Other assets	4,552	4,999
Total assets	$498,979	$477,610
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$14,695	$9,294
Accrued expenses	15,701	17,861
Accrued compensation	4,228	8,685
Deferred revenue	41,084	35,549
Current portion of long-term debt	274	258
Total current liabilities	75,982	71,647
Long-term debt	85,234	85,441
Deferred taxes, net	3,266	3,915
Other liabilities	2,207	357
Total liabilities	166,689	161,360
Preferred stock:		
Undesignated, $0.01 par value, 1,000 shares authorized, no shares issued and outstanding at September 30, 2007 and December 31, 2006		
Common stock:		

$0.01 par value, 150,000 shares authorized; 56,772 shares issued and outstanding at September 30, 2007; 54,358 shares issued and shares outstanding as of December 31, 2006, respectively	567	543
Additional paid-in-capital	850,951	849,628
Accumulated deficit	(519,186)	(533,805)
Accumulated other comprehensive loss	(42)	(116)
Total stockholders equity	332,290	316,250
Total liabilities and stockholders equity	$498,979	$477,610

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per-share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)			
Revenue:				
Software and related services	$58,985	$49,534	$164,906	$124,593
Prepackaged medications	10,904	10,438	32,072	32,456
Information services	3,555	2,219	11,529	7,360
Total revenue	73,444	62,191	208,507	164,409
Cost of revenue:				
Software and related services	25,017	21,631	70,196	51,616
Prepackaged medications	9,223	8,802	26,672	26,844
Information services	2,408	1,202	7,099	3,996
Total cost of revenue	36,648	31,635	103,967	82,456
Gross profit	36,796	30,556	104,540	81,953
Selling, general and administrative expenses	27,173	21,947	74,972	61,877
Amortization of intangible assets	2,757	3,045	7,909	7,696
Income from operations	6,866	5,564	21,659	12,380
Interest expense	(927)	(940)	(2,790)	(2,775)
Interest income and other, net	934	649	3,077	2,361
Gain on sale of equity investment			2,392	
Income before income taxes	6,873	5,273	24,338	11,966
Provision for income taxes	2,749	2,011	9,719	4,554
Net income	$4,124	$3,262	$14,619	$7,412
Net income per share basic	$0.07	$0.06	$0.26	$0.15
Net income per share diluted	$0.07	$0.06	$0.25	$0.14
Weighted-average shares of common stock outstanding used in computing basic net income per share	56,191	53,048	55,500	50,081
Weighted-average shares of common stock outstanding used in computing diluted net income per share	65,225	55,676	64,541	52,572

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

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net income	$14,619	$7,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,090	12,026
Stock-based compensation expense	2,790	1,440
Write-off of capitalized software		290
Gain on sale of equity investment	(2,392)	
Realized loss on investments	41	134
Provision for doubtful accounts	1,787	2,323
Changes in operating assets and liabilities:		
Accounts receivable	(27,514)	(17,687)
Inventories	(1,123)	929
Prepaid expenses and other assets	(7,055)	(2,007)
Deferred taxes	8,425	3,663
Accounts payable	5,393	2,611
Accrued expenses	(2,669)	(947)
Accrued compensation	(4,471)	5,896
Deferred revenue	5,535	(415)
Other liabilities	59	131
Net cash provided by operating activities	8,515	15,799
Cash flows from investing activities:		
Capital expenditures	(6,113)	(4,088)
Capitalized software	(10,104)	(6,086)
Investment in promissory note receivable		(500)
Sale of equity investment	2,592	
Purchase of marketable securities	(17,485)	(14,622)
Maturities of marketable securities	15,043	64,336
Payment for A4 Health Systems, Inc. and related transaction costs (net of $21,742 cash acquired in 2006)	(265)	(209,670)
Payments for other acquisitions and related transaction costs	(11,331)	
Net cash used in investing activities	(27,663)	(170,630)
Cash flows from financing activities:		
Payments of capital lease obligations		(15)
Net proceeds received in issuance of common stock		140,675
Repurchase of common stock from a related party		(21,078)
Proceeds from employee stock purchase plan, net	665	143
Net proceeds from exercise of common stock options	7,990	9,935
Net cash provided by financing activities	8,655	129,660
Net decrease in cash and cash equivalents	(10,493)	(25,171)

Cash and cash equivalents, beginning of period	42,461	60,905
Cash and cash equivalents, end of period	$31,968	$35,734
Non-cash investing and financing information:		
Common stock issued in connection with the acquisition of A4 Health Systems, Inc.		$68,775
Assumption of secured promissory note in connection with the A4 acquisition		$3,400
Issuance of common stock from treasury		$11,250

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

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

2. Revenue Recognition

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

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

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

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

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

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

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

As of September 30, 2007 and December 31, 2006, there were $13,539 and $8,942, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue consisted of the following:

	September 30, 2007	December 31, 2006
Prepayments and billings in excess of revenue earned on contracts in progress for software and services provided by Allscripts and included in the software and related services segment	$17,710	$16,264
Prepayments and billings in excess of revenue earned on contracts in progress for support and maintenance provided by Allscripts and included in the software and related services segment	18,747	14,676
Prepayments and billings in excess of revenue earned for interactive physician education sessions and related services provided by the Allscripts physicians interactive business unit and included in the information services segment	4,627	4,609
Total deferred revenue	$41,084	$35,549

3. Acquisitions

A4 Health Systems

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

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

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

Cash consideration to A4 shareholders (cash payment of $215,000 and additional working capital payment of $12,730)	$227,730
Fair value of Allscripts shares issued to A4 shareholders (3,500 Allscripts common shares at $16.93 per share, the five day average of Allscripts common stock of the public announcement date of January	