ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
Form 10-Q
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

OR

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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

222 Merchandise Mart, Suite 2024

Chicago, IL 60654

(Address of Principal Executive Offices, Zip Code)

(800) 334-8534

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	MDRX	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 1, 2019, there were 166,438,125 shares of the registrant's $0.01 par value common stock outstanding.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

FORM 10-Q

For the Fiscal Quarter Ended March 31, 2019

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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)	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$137,167	$174,243
Restricted cash	10,681	10,552
Accounts receivable, net of allowance of $39,214 and $50,406 as of March 31, 2019 and December 31, 2018, respectively	457,960	465,264
Contract assets	95,077	66,451
Prepaid expenses and other current assets	133,448	142,455
Total current assets	834,333	858,965
Fixed assets, net	115,564	121,913
Software development costs, net	219,047	209,660
Intangible assets, net	415,437	431,081
Goodwill	1,373,996	1,373,744
Deferred taxes, net	4,946	5,036
Contract assets - long-term	72,042	71,879
Right-of-use assets - operating leases	97,411	0
Other assets	109,632	109,206
Total assets	$3,242,408	$3,181,484

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

(In thousands, except per share amounts)	March 31, 2019	December 31, 2018
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$80,585	$73,166
Accrued expenses	108,773	107,068
Accrued compensation and benefits	61,500	100,076
Income tax payable	0	29,644
Deferred revenue	504,089	466,797
Current maturities of long-term debt	20,518	20,059
Current operating lease liabilities	24,154	0
Current liabilities attributable to discontinued operations	0	920
Total current liabilities	799,619	797,730
Long-term debt	766,240	647,539
Deferred revenue	13,089	15,984
Deferred taxes, net	58,366	58,470
Long-term operating lease liabilities	95,112	0
Other liabilities	53,865	81,334
Total liabilities	1,786,291	1,601,057
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $0.01 par value, 1,000 shares authorized, no shares issued and outstanding as of March 31, 2019 and December 31, 2018	0	0
Common stock: $0.01 par value, 349,000 shares authorized as of March 31, 2019 and December 31, 2018; 272,013 and 166,134 shares issued and outstanding as of March 31, 2019, respectively; 270,955 and 171,224 shares issued and outstanding as of December 31, 2018, respectively	2,719	2,709
Treasury stock: at cost, 105,879 and 99,731 shares as of March 31, 2019 and December 31, 2018, respectively	(525,613)	(460,543)
Additional paid-in capital	1,858,319	1,881,494
Retained earnings (accumulated deficit)	125,289	132,842
Accumulated other comprehensive loss	(4,597)	(5,389)
Total Allscripts Healthcare Solutions, Inc.'s stockholders' equity	1,456,117	1,551,113
Non-controlling interest	0	29,314
Total stockholders' equity	1,456,117	1,580,427
Total liabilities and stockholders' equity	$3,242,408	$3,181,484

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended	
	March 31,	
(In thousands, except per share amounts)	2019	2018
Revenue:		
Software delivery, support and maintenance	$275,512	$280,553
Client services	156,537	153,169
Total revenue	432,049	433,722
Cost of revenue:		
Software delivery, support and maintenance	88,133	86,010
Client services	141,599	137,088
Amortization of software development and acquisition-related assets	28,222	25,959
Total cost of revenue	257,954	249,057
Gross profit	174,095	184,665
Selling, general and administrative expenses	100,245	119,937
Research and development	64,310	64,790
Asset impairment charges	98	0
Amortization of intangible and acquisition-related assets	6,797	6,639
Income (loss) from operations	2,645	(6,701)
Interest expense	(10,184)	(11,694)
Other income (loss), net	513	(35)
Loss on sale of businesses, net	0	(871)
Recovery (impairment) of long-term investments	1,045	(5,500)
Equity in net loss of unconsolidated investments	(64)	(61)
Loss from continuing operations before income taxes	(6,045)	(24,862)
Income tax provision	(1,932)	(299)
Loss from continuing operations, net of tax	(7,977)	(25,161)
Loss from discontinued operations	0	(5,016)
Income tax effect on discontinued operations	0	1,662
Loss from discontinued operations, net of tax	0	(3,354)
Net loss	(7,977)	(28,515)
Net loss attributable to non-controlling interests	424	790
Accretion of redemption preference on redeemable convertible non-controlling interest - discontinued operations	0	(12,149)
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders	$(7,553)	$(39,874)
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders per share:		
Basic		
Continuing operations	$(0.04)	$(0.14)
Discontinued operations	0.00	(0.08)

Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders per share	$(0.04)	$(0.22)
Diluted		
Continuing operations	$(0.04)	$(0.14)
Discontinued operations	0.00	(0.08)
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders per share	$(0.04)	$(0.22)

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

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended March 31,	
(In thousands)	2019	2018
Net loss	$(7,977)	$(28,515)
Other comprehensive (loss) income:		
Foreign currency translation adjustments	695	123
Change in fair value of derivatives qualifying as cash flow hedges	132	(633)
Other comprehensive income (loss) before income tax (expense) benefit	827	(510)
Income tax (expense) benefit related to items in other comprehensive (loss) income	(35)	314
Total other comprehensive income (loss)	792	(196)
Comprehensive loss	(7,185)	(28,711)
Comprehensive loss attributable to non-controlling interests	424	790
Comprehensive (loss) income, net	$(6,761)	$(27,921)

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands)	Three Months Ended March 31, 2019	2018
Number of Common Shares		
Balance at beginning of period	270,955	269,335
Common stock issued under stock compensation plans, net of shares withheld for employee taxes	1,058	1,266
Balance at end of period	272,013	270,601
Common Stock		
Balance at beginning of period	$2,709	$2,693
Common stock issued under stock compensation plans, net of shares withheld for employee taxes	10	13
Balance at end of period	$2,719	$2,706
Number of Treasury Stock Shares		
Balance at beginning of period	(99,731)	(88,504)
Issuance of treasury stock	0	0
Purchase of treasury stock	(6,148)	(4,144)
Balance at end of period	(105,879)	(92,648)
Treasury Stock		
Balance at beginning of period	$(460,543)	$(322,735)
Purchase of treasury stock	(65,070)	(57,600)
Balance at end of period	$(525,613)	$(380,335)
Additional Paid-In Capital		
Balance at beginning of period	$1,881,494	$1,781,059
Stock-based compensation	11,394	9,935
Common stock issued under stock compensation plans, net of shares withheld for employee taxes	(5,338)	(8,296)
Accretion of redemption preference on redeemable convertible non-controlling interest - discontinued operations	0	(12,149)
Subsidiary issuance of common stock	0	(430)
Warrants issued	682	682
Acquisition of non-controlling interest	(29,913)	0
Balance at end of period	$1,858,319	$1,770,801
Retained earnings (accumulated deficit)		
Balance at beginning of period	$132,842	$(338,150)
Net loss less net income attributable to non-controlling interests	(7,553)	(27,725)
ASC 606 implementation adjustments	0	46,604
Balance at end of period	$125,289	$(319,271)
Accumulated Other Comprehensive Loss		
Balance at beginning of period	$(5,389)	$(1,985)
Foreign currency translation adjustments, net	695	123

Unrecognized gain on derivatives qualifying as cash flow hedges, net of tax	97	(319)
Balance at end of period	$(4,597)	$(2,181)
Non-controlling interest		
Balance at beginning of period	$29,314	$39,190
Acquisition of non-controlling interest	(28,890)	0
Net loss attributable to non-controlling interests	(424)	(790)
Balance at end of period	$0	$38,400
Total Stockholders’ Equity at beginning of period	$1,580,427	$1,160,072
Total Stockholders’ Equity at end of period	$1,456,117	$1,110,120

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net loss	$(7,977)	$(28,515)
Less: Loss from discontinued operations	0	(3,354)
Loss from continuing operations	(7,977)	(25,161)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50,126	47,948
Operating right-of-use asset amortization	5,320	0
Stock-based compensation expense	11,658	9,957
Deferred taxes	6	723
Asset impairment charges	98	0
(Recovery) impairment of long-term investments	(1,045)	5,500
Equity in net loss of unconsolidated investments	64	61
Loss on sale of businesses, net	0	871
Other income (losses), net	172	(941)
Changes in operating assets and liabilities (net of businesses acquired):		
Accounts receivable and contract assets, net	32,307	33,075
Prepaid expenses and other assets	3,658	(6,501)
Accounts payable	7,382	4,707
Accrued expenses	(4,847)	13,670
Accrued compensation and benefits	(39,525)	(18,610)
Deferred revenue	(17,107)	(13,894)
Other liabilities	1,380	2,910
Operating leases	(5,854)	0
Net cash provided by operating activities - continuing operations	35,816	54,315
Net cash (used in) provided by operating activities - discontinued operations	(30,000)	3,993
Net cash provided by operating activities	5,816	58,308
Cash flows from investing activities:		
Capital expenditures	(4,847)	(7,508)
Capitalized software	(28,600)	(26,168)
Cash paid for business acquisitions, net of cash acquired	0	(107,212)
Sales (purchases) of equity securities, other investments and related intangible assets, net	32	0
Other proceeds from investing activities	5	37
Net cash used in investing activities - continuing operations	(33,410)	(140,851)
Net cash used in investing activities - discontinued operations	0	(8,961)
Net cash used in investing activities	(33,410)	(149,812)
Cash flows from financing activities:		

Proceeds from sale or issuance of common stock	0	212
Taxes paid related to net share settlement of equity awards	(5,327)	(8,496)
Payments of lease obligations	(55)	(255)
Credit facility payments	(5,000)	0
Credit facility borrowings, net of issuance costs	120,000	145,843
Repurchase of common stock	(65,070)	(57,599)
Payment of acquisition financing obligations	0	(3,226)
Purchases of subsidiary shares owned by non-controlling interest	(54,064)	0
Net cash (used in) provided by financing activities - continuing operations	(9,516)	76,479
Net cash used in financing activities - discontinued operations	0	(3,766)
Net cash (used in) provided by financing activities	(9,516)	72,713
Effect of exchange rate changes on cash and cash equivalents	163	65
Net decrease in cash and cash equivalents	(36,947)	(18,726)
Cash, cash equivalents and restricted cash, beginning of period	184,795	162,498
Cash, cash equivalents and restricted cash, end of period	147,848	143,772
Less: Cash and cash equivalents included in current assets attributable to discontinued operations	0	(19,105)
Cash, cash equivalents and restricted cash, end of period, excluding discontinued operations	$147,848	$124,667

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

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. (“Allscripts”) and its wholly-owned subsidiaries and controlled 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 subsidiaries and controlled affiliates, unless otherwise stated.

Unaudited Interim Financial Information

The unaudited interim consolidated financial statements as of and for the three months ended March 31, 2019 and 2018 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 consolidated results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019.

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. The Company believes that the disclosures made are adequate to make these unaudited interim consolidated financial statements not misleading. They 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, 2018 (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.

Change in Presentation

During the first quarter of 2019, we changed our reportable segments from Clinical and Financial Solutions, Population Health and Unallocated to Provider, Veradigm and Unallocated. The business units reported within the historical segments have been reallocated into the new segments. Refer to Note 15 “Business Segments” for further discussion on the impact of the change.

Significant Accounting Policies

We adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02") on January 1, 2019 using the cumulative-effect adjustment transition method. This method requires us to recognize an adoption impact as a cumulative-effect adjustment to the January 1, 2019 retained earnings balance. Prior period balances were not adjusted upon adoption this standard. The standard requires that leased assets and corresponding lease liabilities be recognized within the consolidated balance sheets as right-to-use assets and operating or financing lease liabilities. Please refer to Note 3 "Leases" for further discussion on the impact of adoption.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"), which provides new accounting guidance to simplify and improve the reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in ASU 2017-12 make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. We adopted ASU 2017-12 on January 1, 2019 and the adoption did not have any effect on our consolidated financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers. We adopted this standard on January 1, 2019 and the adoption did not have any effect on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, “Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements ASU 2018-13 will be effective for all entities for interim and annual periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the disclosure impact of this accounting guidance.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The guidance in ASU 2016-13 replaces the incurred loss impairment methodology under current GAAP. The new impairment model requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently in the process of evaluating this new guidance, which we expect to have an impact on our consolidated financial statements and results of operations.

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

2. Revenue from Contracts with Customers

Our two primary revenue streams are (i) software delivery, support and maintenance and (ii) client services. Software delivery, support and maintenance revenue consists of all of our proprietary software sales (either under a perpetual or term license delivery model), subscription-based software sales, transaction-related revenue, the resale of hardware and third-party software and revenue from post-contract client support and maintenance services, which include telephone support services, maintaining and upgrading software and ongoing enhanced maintenance. Client services revenue consists of revenue from managed services solutions, such as private cloud hosting, outsourcing and revenue cycle management, as well as other client services and project-based revenue from implementation, training and consulting services. For some clients, we host the software applications licensed from us using our own or third-party servers. For other clients, we offer an outsourced service in which we assume partial to total responsibility for a healthcare organization’s IT operations using our employees.

At March 31, 2019 and 2018, we had capitalized costs to obtain or fulfill a contract of $22.7 million and $27.4 million, respectively, in Prepaid and other current assets and $32.0 million and $37.3 million, respectively, in Other assets. During the three months ended March 31, 2019 and 2018, we recognized $7.6 million and $8.1 million, respectively, of amortization expense related to such capitalized costs, which is included in selling, general and administrative expenses within the consolidated statements of operations.

The timing of revenue recognition, billings and cash collections results in billed and unbilled accounts receivables, contract assets and customer advances and deposits. Accounts receivable, net includes both billed and unbilled amounts where the right to receive payment is unconditional and only subject to the passage of time. Contract assets include amounts where revenue recognized exceeds the amount billed to the customer and the right to payment is not solely subject to the passage of time. Deferred revenue includes advanced payments and billings in excess of revenue recognized. Our contract assets and deferred revenue are reported in a net position on an individual contract basis at the end of each reporting period. Contract assets are classified as current or long-term based on the timing of when we expect to complete the related performance obligations and bill the customer. Deferred revenue is classified as current or long-term based on the timing of when we expect to recognize revenue.

The breakdown of revenue recognized related based on the origination of performance obligations and elected accounting expedients is presented in the table below:

(In thousands)	Three Months Ended March 31, 2019
Revenue related to deferred revenue balance at beginning of period	$126,184
Revenue related to new performance obligations satisfied during the period	248,221
Revenue recognized under "right-to-invoice" expedient	55,923
Reimbursed travel expenses, shipping and other revenue	1,721
Total revenue	$432,049

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(In thousands)	Three Months Ended March 31, 2018
Revenue related to deferred revenue balance at beginning of period	$181,398
Revenue related to new performance obligations satisfied during the period	200,232
Revenue recognized under "right-to-invoice" expedient	49,403
Reimbursed travel expenses, shipping and other revenue	2,689
Total revenue	$433,722

The aggregate amount of contract transaction price related to remaining unsatisfied performance obligations (commonly referred to as "backlog") represents contracted revenue that has not yet been recognized and includes both deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Total backlog equaled $4.0 billion as of March 31, 2019, of which we expect to recognize approximately 38% over the next 12 months, and the remaining 62% thereafter.

Revenue Recognition

We recognize revenue only when we satisfy an identified performance obligation (or bundle of obligations) by transferring control of a promised product or service to a customer. We consider a product or service to be transferred when a customer obtains control because a customer has sole possession of the right to use (or the right to direct the use of) the product or service for the remainder of its economic life or to consume the product or service in its own operations. We evaluate the transfer of control primarily from the customer's perspective as this reduces the risk that revenue is recognized for activities that do not transfer control to the customer.

The majority of our revenue is recognized over time because a customer continuously and simultaneously receives and consumes the benefits of our performance. The exceptions to this pattern are our sales of perpetual and term software licenses, and hardware, where we determined that a customer obtains control of the asset upon granting of access, delivery or shipment.

We disaggregate our revenue from contracts with customers based on the type of revenue and nature of revenue stream, as we believe those categories best depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. The below tables summarize revenue by type and nature of revenue stream as well as by our reportable segments:

	Three Months Ended March 31	
(In thousands)	2019	2018
Revenue:		
Recurring revenue	$348,636	$352,660
Non-recurring revenue	83,413	81,062
Total revenue	$432,049	$433,722

	Three Months Ended March 31, 2019			
(In thousands)	Provider	Veradigm	Unallocated	Total
Software delivery, support and maintenance	$237,355	$ 34,042	$ 4,115	$275,512

Client services	155,252	1,074	211	156,537
Total revenue	$392,607	$ 35,116	$ 4,326	$432,049

	Three Months Ended March 31, 2018			
(In thousands)	Provider	Veradigm	Unallocated	Total
Software delivery, support and maintenance	$257,754	$ 21,415	$ 1,384	$280,553
Client services	152,670	1,392	(893)	153,169
Total revenue	$410,424	$ 22,807	$ 491	$433,722

3. Leases

We adopted ASU 2016-02 on January 1, 2019 using the cumulative-effect adjustment transition method. The new guidance required the recognition of leased arrangements on the balance sheet as a right-of-use assets and liabilities pertaining to the rights and obligations created by the leased assets.

We determine whether an arrangement is a lease at inception. Assets leased under an operating lease arrangement are recorded in Right-of-use assets – operating leases and the associated lease liability is included in Current operating lease liabilities and Long-term operating lease liabilities within the consolidated balance sheets. Assets leased under finance lease arrangements are recorded within fixed assets and the associated lease liabilities are recorded within Accrued expenses and Other liabilities within the consolidated balance sheets.

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the expected lease term. Since our lease arrangements do not provide an implicit rate, we use our incremental borrowing rate in conjunction with the market swap rate for the expected remaining lease team at commencement date for new leases, or as of January 1, 2019 for existing leases, in determining the present value of future lease payments. Our expected lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term.

We have elected the group of practical expedients under ASU 2016-02 to forego assessing upon adoption: (1) whether any expired contracts are or contain leases; (2) the lease classification for any existing or expired leases and (3) any indirect costs that would have qualified for capitalization for any existing leases. We have lease agreements with lease and non-lease components, which are generally accounted for separately except for real estate and vehicle leases, which we have elected to combine through a practical expedient under ASU 2016-02. Non-lease components for our leases typically comprise of executory costs, which under the practical expedient allows for all executory costs to be recorded as lease payments. Additionally, for certain equipment leases, we apply a portfolio approach to effectively record right-of-use assets and liabilities.

Our operating leases mainly include office leases and our finance leases include office and computer equipment leases. Our leases have remaining lease terms of approximately 1 year to 10 years, some of which include options to extend the leases for up to 5 years, which may include options to terminate the leases within 1 year. Total costs associated with leased assets are as follows:

(In thousands)	Three months ended March 31, 2019
Operating lease cost [1]	$ 6,717
Less: Sublease income	(802)
Total operating lease costs	5,915
Finance lease costs:	
Amortization of right-of-use assets [2]	51
Interest on lease liability [3]	3
Total finance lease costs	$ 54

[1] Operating lease costs are recognized on a straight-line basis and are included in Selling, general and administrative expenses within the consolidated statement of operations.

(2) Amortization of finance right-of-use assets is recognized on a straight-line basis and is included in in Selling, general and administrative expenses within the consolidated statement of operations.

(3) Interest on finance lease liabilities is recorded as Interest expense within the consolidated statement of operations.

Supplemental information for operating and finance leases is as follows:

(In thousands)	Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$7,287
Operating cash flows from finance leases	$3
Financing cash flows from finance leases	$37
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$124,811
Finance leases	$263

The balance sheet location and balances for operating and finance leases are as follows:

(In thousands, except lease term and discount rate)	March 31, 2019	
Operating leases:		
Right-of-use assets - operating leases	$97,411	
Current operating lease liabilities	$24,154	
Long-term operating lease liabilities	$95,112	
Finance leases:		
Fixed assets, gross	$524	
Accumulated depreciation	286	
Fixed assets, net	$238	
Current finance lease liabilities [1]	$130	
Long-term finance lease liabilities [2]	$97	
Weighted average remaining lease term (in years)		
Operating leases	6	
Finance leases	2	
Weighted average discount rate		
Operating leases	4.6	%
Finance leases	5.0	%

[1] Current finance lease liabilities are included in Accrued expenses within the consolidated balance sheets.
[2] Long-term finance lease liabilities are included in Other liabilities within the consolidated balance sheets.

The future maturities of our leasing arrangements including lease and non-lease components are shown in the below table. The maturities are calculated using foreign currency exchange rates in effect as of March 31, 2019.

	March 31, 2019	
(in thousands)	Operating Leases	Finance Leases
Remainder of 2019	$22,128	$ 107
2020	24,839	85
2021	20,773	40
2022	19,205	6
2023	16,817	0
Thereafter	33,171	0
Total lease liabilities	136,933	238
Less: Amount representing interest	(17,667)	(11)
Less: Short-term lease liabilities	(24,154)	(130)
Total long-term lease liabilities	$95,112	$ 97

4. Business Combinations

On March 1, 2019, we acquired all of the outstanding minority interest in Pulse8, Inc., a healthcare analytics and technology company that provides business intelligence software solutions for health plans and at-risk providers to enable them to analyze their risk adjustment and quality management programs, for $53.8 million (subject to adjustments for net working capital and a contingency holdback), plus up to a $10.0 million earnout based upon revenue targets through 2019. We initially acquired a controlling stake in Pulse 8, Inc. on September 8, 2016. This transaction was treated as an equity transaction and the cash payment is reported as part of cash flow from financing activities in the consolidated statement of cash flows for the three months ended March 31, 2019.

5. Fair Value Measurements and Long-term Investments

Fair value measurements are based upon observable and unobservable inputs.

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

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs are significant to the fair value of the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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

	Balance Sheet	March 31, 2019				December 31, 2018			
(In thousands)	Classifications	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Foreign exchange derivative assets	Prepaid expenses and other current assets	$0	$ 394	$0	$394	$0	$ 262	$0	$262
1.25% Call Option	Other assets	0	0	3,030	3,030	0	0	9,104	9,104
Total assets		$0	$ 394	$3,030	$3,424	$0	$ 262	$9,104	$9,366
Contingent consideration - current	Accrued expenses	0	0	8,785	8,785	0	0	10,528	10,528
Contingent consideration - long-term	Other liabilities	0	0	22,074	22,074	0	0	15,317	15,317
1.25% Embedded cash conversion option	Other liabilities	0	0	3,525	3,525	0	0	9,974	9,974
Total liabilities		$0	$ 0	$34,384	$34,384	$0	$ 0	$35,819	$35,819

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis at March 31, 2019 are summarized as follows:

(In thousands)	Contingent Consideration	1.25% Notes Call Spread Overlay