UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1999

OR

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

For the transition period from ______________ to ______________

Commission File Number: 0-28132

LANVISION SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	31-1455414
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Financial Way, Suite 400
Cincinnati, Ohio 45242-5859
(Address of principal executive offices) (Zip Code)

(513) 794-7100
(Registrant's telephone number, including area code)

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

None

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

Common Stock, $.01 par value
(Title of Class)

(continued)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. / X /

The aggregate market value of the voting stock held by nonaffiliates of the registrant, computed using the closing price as reported by The Nasdaq Stock Market for the Registrant's Common Stock on April 22, 1999, was $5,668,250.

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of April 22, 1999: 8,814,520.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the year ended January 31, 1999, are incorporated by reference into Part II of this Form 10-K to the extent stated herein. Except with respect to information specifically incorporated by reference in this Form 10-K, the Annual Report is not deemed to be filed as a part hereof.

Portions of the Registrant's Definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 26, 1999, are incorporated by reference into Part III of this Form 10-K to the extent stated herein. Except with respect to information specifically incorporated by reference in this Form 10-K, the Definitive Proxy Statement is not deemed to be filed as a part hereof.

FORWARD-LOOKING STATEMENTS

In addition to historical information contained herein, this Annual Report on Form 10-K contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the sections entitled "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Registrant undertakes no obligation to publicly revise these forward-looking statements, to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

PART I

ITEM 1. BUSINESS

General

LanVision Systems, Inc. ("LanVision"(TM) or the "Company") is a leading supplier of Healthcare Information Access Systems and services that enable healthcare providers to access, on a real-time basis, all the various forms of clinical and financial patient information from a single permanent health information repository. The Company's solutions integrate a proprietary document imaging platform, application suites, and image and web-enabling tools, that allow for the seamless merger of "back office" functionality with existing Clinical Information Systems at the desktop. The Company offers a robust document imaging/management infrastructure that is built for high volume transaction processing and is optimized for the healthcare industry. In addition to providing the clinician access to information not previously available at the desktop, the Company's applications fulfill the administrative and legal needs of the Medical Records and Patient Financial Services departments. Furthermore, these systems have been specifically designed to integrate with any Clinical Information System. For example, the Company has integrated its products with selected systems from Shared Medical Systems Corporation, Cerner Corporation, IDX Systems Corporation, and Oacis Healthcare Holdings Corp. By offering electronic access to all the components of the Medical Record, this integration completes one of the most difficult tasks necessary to provide a true Computer Based Patient Record. The Company's systems deliver on-line enterprisewide access to fully-updated patient information which historically was maintained on a variety of media, including paper, magnetic disk, optical disk, x-ray film, video, audio and microfilm.

The Company's revenues are derived from: the licensing and sale of systems comprising LanVision and third-party software and hardware components, product support, maintenance, professional services, and service bureau operations. Professional services include implementation and training, project management, custom software development and currently are provided only to the Company's customers with installed systems or who are in the process of installing systems. Revenues from professional services, maintenance and support services typically are expected to increase as the number of installed systems increase. The Company earns its highest margins on proprietary LanVision software and the lowest margin is on third-party hardware. Systems sales to customers may include different configurations of software and hardware, resulting in varying margins among contracts. The margins on professional services revenues are expected to fluctuate based upon the negotiated terms of the agreement with each customer and the Company's ability to fully utilize its professional services, maintenance and support services staff. Revenues from the Company's service bureau operations, which provides high quality, transaction-based document imaging/management services from a central data center, are expected to increase as the number of hospitals outsource services to the Company's Virtual Healthware Services division ("VHS"). Additionally, revenue from each VHS customer is expected to increase as the volume of archived historical data increases and retrievals of data increases as the systems are fully implemented within a healthcare facility.

The systems and service bureau operations enable hospitals and integrated healthcare networks to capture, store, manage, route, retrieve and process vast amounts of clinical and financial patient information. LanVision's systems, which incorporate data management, document imaging/management and workflow technologies, consolidate patient information into a single repository and provide fast and efficient access to patient information from universal workstations located throughout the enterprise, including the point of patient care.

Healthcare Industry Background

Healthcare expenditures continue to grow at a significant rate and approximated $1.0 trillion in 1998, representing approximately 14% of the U.S. Gross Domestic Product. In response to these increases, the healthcare industry is undergoing significant change as competition and cost-containment measures imposed by governmental and private payors have created significant pressures on healthcare providers to control healthcare costs while providing quality patient care. At the same time, the healthcare delivery system is experiencing a shift from a highly fragmented group of non-allied healthcare providers to integrated healthcare networks which combine all of the services, products and equipment necessary to address the needs of healthcare customers. As a result, healthcare providers are seeking to cut costs, increase productivity and enhance the quality of patient care through improved access to information throughout the entire hospital or integrated healthcare network.

Today, the majority of the patient record is paper-based in most hospitals. The inefficiencies of a paper-based record increase the cost of patient care. Physicians often cannot gain access to medical records at the time of patient visits, and users cannot simultaneously access the record when only a single copy of the paper-based patient record is available. In the Company's experience in installing its systems, a typical 500 bed hospital can produce 15,000 to 20,000 pages of new patient information each day even with computerized admission, billing, laboratory and radiology systems, and individual physician document retrieval requests can be as high as 100 documents per physician per day. The volume of medical images in the patient record is expanding as well. In addition to classic images such as x-rays and CAT scans, new image forms such as digitized slides, videos and photographs proliferate. Thus, the ability to store and retrieve images of voluminous paper records and medical images on a timely basis is a critical feature of a complete Computerized Patient Record ("CPR").

In order to simultaneously reduce costs and enhance the level of patient care, hospitals and other healthcare providers are demanding comprehensive, cost-effective information systems that deliver rapid access to fully updated and complete patient information. Traditional Healthcare Information Systems are inadequate because: (i) they do not capture large amounts of the patient record which are paper-based and stored in various sites throughout the enterprise; (ii) computerized patient data is generated using a variety of disparate systems which cannot share information; and (iii) multimedia medical information such as x-rays, CAT scans, MRI's, video and audio information are frequently inaccessible at the point of patient care. Accordingly, hospitals and other healthcare providers have begun to increase their expenditures. In the tenth Annual Healthcare Information and Management Systems Society ("HIMSS") Leadership Survey Sponsored by IBM in February 1999, 71% of the respondents expected an increase in their information technology budget. Respondents to the survey ranked Year 2000 Compliance conversion and integrating systems in a multi-vendor environment as their two most important priorities. However, implementing a CPR system was ranked as the next highest priority. In addition, only 11% of the hospitals surveyed indicated that they had a fully operational CPR system in place, approximately 25% of the respondents indicated they have developed a plan to implement a CPR system and 32% indicated they have begun to install CPR hardware and software.

Document imaging and workflow technologies are essential elements of a CPR because they allow for the storage of unstructured data (i.e., patient record elements other than data or text, such as photographs, images of a document, video, x-ray images) and they enable digitized x-rays, CAT scans, MRI's, video and audio information to be accessed and delivered to the caregiver at the point of patient care. The Company's management believes the demand for the Company's Healthcare Information Access Systems, which can supply imaging capabilities to the CPR, will increase in future years.

Also, the HIMSS Leadership Survey indicated that more organizations were outsourcing information technology functions. In 1999, 14% of respondents indicated that they were outsourcing application support compared with 11% in 1998. Additionally, the information technology individuals responding to the HIMSS Leadership Survey indicated that security related to patient records was one of the most important concerns within their institutions.

The LanVision Solution

LanVision's Healthcare Information Access Systems provide solutions for the patient information access needs of hospitals and integrated healthcare networks. LanVision's systems enable medical and administrative personnel to rapidly and efficiently capture, store, manage, route, retrieve and process vast amounts of clinical and financial patient information.

LanVision's systems: (i) capture and store electronic data from disparate hospital information systems through real-time, computerized interfaces; (ii) facilitate the storage of digitized multimedia data and medical images such as x-rays, CAT scans, MRI's, video and audio information; (iii) provide applications for efficiently scanning and automatically indexing paper-based records; (iv) allow storage of a patient's lifetime Medical Record on low cost optical disks which also provides rapid access to high volumes of data enterprisewide; (v) provide workflow automation to facilitate the re-engineering of business processes; and (vi) incorporate physician-oriented interfaces that allow the user to easily locate and retrieve patient information in the hospital or clinical setting, including the point of patient care.

LanVision's Healthcare Information Access Systems provide financial, administrative, and clinical benefits to the healthcare provider and facilitate more effective patient care. These benefits include: improved access to patient information to assist in making informed clinical and financial decisions; reduced costs for administrative personnel due to increased workflow efficiency, as data can be routed within an organization to all users who need to process that information simultaneously or in sequence as required; increased productivity through the elimination of file contention by providing multiple users simultaneous access to patient Medical Records; reduced costs and improved care through the reduction of unnecessary testing and admissions; improved cash flow through accelerated collections and reduction of "technical denials" (which occur when a third-party payor refuses payment because of the provider's inability to substantiate billing claims due to loss of portions or all of the patient record); expedited treatment decisions, and fewer redundant tests as a result of timely access to complete information; fewer Medical Record errors by minimizing misfiled, lost and improperly completed records; and increased security of patient information through improved controls on access to confidential data and the creation of audit trails that identify the persons who accessed or even tried to access such information.

In 1998, LanVision successfully launched its new Virtual Healthware Services Division ("VHS") that utilizes LanVision's web-based browser technology to deliver patient information via a secure Internet/Intranet from a remote central data center to anyone with access to the healthcare network on a real-time basis. LanVision began to construct the central data center in the fourth quarter of fiscal 1997. The data center was completed in the first quarter of fiscal 1998, and VHS began processing customer transactions in April 1998.

The LanVision Strategy

The Company's objective is to continue to be a leading provider of Healthcare Information Access Systems. Important elements of the Company's business strategy include:

Expand Distribution Channels. Management estimates the market for the Company's products is in excess of $1 billion, and the market is less than 10% penetrated. Throughout 1996 and 1997, LanVision increased its sales and marketing staff in anticipation of increased demand for its products. However, revenues were less than the Company's plan in each year. Accordingly, the Company began to cut back its direct sales force in 1998. The shortfall in 1996 through 1998 revenues occurred for a variety of reasons. First, the healthcare industry has not moved forward as quickly as the Company and many others anticipated. For years, healthcare institutions spent significantly less on information systems than other industries. However, despite the need to catch up, existing Healthcare Information Systems personnel are only able to absorb so much new technology. There was a significant amount of new technology to assess, and there were wide differences of opinions on how to prioritize the many information technology projects. Many institutions began by replacing their clinical systems, and looked at the Electronic Medical Record ("EMR") as a secondary priority. Consequently, the Company experienced very long sales cycles, and many cycles ended in no decision. In addition, it took longer for the Company to deliver products such as On-Line Chart Completion(TM) and Release of Information (ROI)(TM) (formerly Enterprisewide Correspondence(TM)) than originally anticipated, and this adversely affected some existing sales opportunities. Additionally, in 1998, many healthcare organizations were preoccupied with Year 2000 Compliance remediation of their existing systems, and deferred purchase decisions on new systems. Also, throughout 1997 and a good part of 1998, the Company was almost completely dependent upon its direct sales force. Buying decisions at certain hospitals and integrated healthcare delivery networks are influenced by the recommendations of the largest Healthcare Information Systems ("HIS") vendors, including: Shared Medical Systems Corporation ("SMS"), HBO & Company, Cerner Corporation, IDX Systems Corporation, Eclipsys Corporation, etc. It has been difficult for companies with relatively small sales forces to influence the buying decisions as effectively as the major HIS vendors. Prior to the Company's agreement with SMS (see next paragraph), the Company's products were not actively promoted by any of the five largest HIS vendors.

In February 1998, LanVision took a major step forward in improving and expanding its sales distribution when it entered into a Remarketing Agreement with Shared Medical Systems Corporation, one of the leading providers of information technology to the healthcare industry. SMS serves more than 3,500 healthcare organizations throughout North America and Europe, and will sell LanVision's Electronic Medical Records imaging/management and workflow products as an integrated component of the SMS(R) NOVIUS(R) product line.

It is management's intention to develop additional remarketing alliances with other HIS vendors and to explore other means of expanding the Company's distribution channels.

Maintain Technological Leadership through the Development of New Software Applications and Increased Functionality of Existing Applications. LanVision intends to continue its product development efforts and increase the functionality of existing applications along with the development of new applications using document imaging and workflow technologies. In particular, the Company intends to increase the functionality of its web-based applications. (See "WebView(TM) - web enabling tool" described below.) Due to the significant amount of development in 1997 and 1998, management believes fiscal 1999 product development expenses will be somewhat less than in fiscal 1998.

In the second half of 1997 and 1998, the Company completed its development of significant new products, including: On-Line Chart Completion, Release of Information (ROI) (formerly called Enterprisewide Correspondence), WebView, OmniVision(TM), AVRemit(TM), and Document Capture System(TM).

During 1997 and 1998, in addition to the development of new products discussed above, the Company added new functionality to its flagship product ChartVision(R). Additionally, the Company has continued development of a new version of AccountVision(TM), which will share a common database with ChartVision, and this new enhanced version of the product will be released in fiscal 1999. The new version of AccountVision was originally scheduled for release in the first half of fiscal 1998, but was delayed because the development staff has been focused on other development efforts, including integration with SMS products and Year 2000 Compliance remediation.

Management believes only the most robust, flexible, dependable products will survive in the healthcare market, and the Company has attempted to establish itself as the leader in document imaging/management and workflow applications through strong product development.

Image-Enable Clinical Data Repositories and Other Applications Software. Today, healthcare information is often stored on numerous dissimilar host-based and departmental systems that are spread throughout an enterprise and are not integrated. Additionally, these current systems do not address the data stored on paper or the increasing volume of medical images such as x-rays, CAT scans, digitized slides, exploratory scopes, photographs, audio, etc. LanVision believes the efficiencies and productivity of hospitals and integrated delivery networks can be greatly enhanced by seamlessly integrating their historical information systems with document imaging and workflow applications. Physicians, clinicians and other healthcare users then have access to the complete patient record, including the structured data, such as a lab result, and the related unstructured data, such as an x-ray or a doctor's hand written notes. LanVision has image-enabled many popular Clinical Data Repositories, such as those offered by Oacis Healthcare Holdings Corp., IDX Systems Corporation, and Cerner Corporation. LanVision is marketing image enabling through its product OmniVision. LanVision intends to continue to aggressively market its unique image-enabling solutions to end users and other third-party software application providers. OmniVision is in production in several large-scale, enterprisewide applications including over 2,000 workstations at Memorial Sloan-Kettering Cancer Center and is being deployed on over 1,000 workstations at USCF Stanford Healthcare. (See "OmniVision-Image-Enabling Tool" described below.)

Provide Outsourced Information Systems Service Bureau Operations. LanVision established a new division, Virtual Healthware Services ("VHS"), which utilizes LanVision's web-based applications across an Internet/Intranet, to deliver high quality, transaction-based document imaging/management services to healthcare providers from a centrally located data center. The division enables its healthcare customers to achieve enhanced patient care, improved security and accessibility to patient records at significant cost savings with minimal up-front capital investment, maintenance and support costs. Customers realize benefits more quickly, with less economic risk. VHS offers an alternative to a hospital allocating several million dollars in its capital budget to establish an in-house system. This service is made possible through the advancement of web-based technology, state-of-the-art communication technology and advanced software design. International Data Corporation, an information technology market research firm, estimates that, in 1997, the healthcare industry spent approximately $2.9 billion in the United States, and $6.2 billion worldwide, for outsourcing information systems operations, processing services and other information technology related business operations, and is expected to increase at an annual growth rate of 10%.

Systems and Services

LanVision's systems employ an open architecture that supports a variety of operating systems, including Microsoft Windows, Windows 95, Windows NT and UNIX. The Company's systems can be configured with various hardware platforms, including INTEL-compatible personal computers, IBM RS/6000 and Hewlett-Packard 9000. The Company's systems include a graphical user interface designed specifically by the Company for physicians and other medical and administrative personnel in hospitals and integrated healthcare networks. The Company's systems operate on multiple imaging platforms, including FileNet and Kofax. The Company's Healthcare Information Access Systems incorporate advanced features, including workflow and security features which allow customers to restrict direct access to confidential patient information, secure patient data from unauthorized indirect access and have audit trail features.

A brief description of the Company's products follows.

The Foundation Suite

The Foundation Suite is a robust document imaging/management infrastructure, built for maximum performance in high document volume settings and optimized for the healthcare industry. The features resident in the Foundation Suite were built around patient oriented objects that result in more efficient code and rapid delivery to market of new applications. The Foundation Suite is designed in a reusable object-oriented environment, utilizing a 32-bit Windows NT-based architecture, that provides the following essential document imaging/management functions: security, auditing, data access, printing/faxing, scheduling, data archiving migration and full problem diagnosis. The Foundation Suite offers the following unique enhanced security and auditing functions that are essential to integrated delivery networks in a multi-entity environment:

- - multiple levels of security (administrative, user, patient, document, workstation, physical location, and healthcare entity) configurable by user, workstation and location,

- - full audit trails and reporting of every record viewed, printed, faxed, processed or unauthorized login attempts at the patient encounter or document level.

The Input Suite

The Company's Input Suite software is designed to enable healthcare organizations to enter paper-based and electronic information into the entire suite of LanVision products. The Input Suite was specifically designed for high volume healthcare environments to capture healthcare information in the most efficient and error-free manner. The Input Suite includes the following modules: scanning and indexing, OCR (Optical Character Recognition), and COLD (Computer Output to Laser Disk) with forms overlay and custom interfaces. The Input Suite supports the capture, indexing and viewing of over 250 different file formats, bar code recognition, image enhancement and a variety of industry standard document scanners.

The ChartVision Application Suite......a highly evolved Electronic Medical Record application

The ChartVision application suite provides physicians, clinicians and information management professionals throughout the healthcare enterprise with immediate and simultaneous access to the complete patient record. ChartVision is a highly evolved Electronic Medical Record application suite that provides streamlined processing and fast, easy access to all forms of healthcare information regardless of source. The ChartVision application suite includes the following modules:

On-Line Chart Completion (OCC)
Automates the identification of deficiencies in patient charts and electronically routes the incomplete documents to the appropriate medical and administrative personnel for on-line processing, chart completion, electronic signature and reporting. OCC includes proprietary embedded LanVision workflow software, which provides a significant cost advantage over alternative third-party workflow software when deployed throughout the healthcare enterprise.

Release of Information (ROI)
Fulfills internal and external requests for information and allows for automatic invoicing capability. ROI also provides the ability to electronically search for, print, mail or fax information to third parties that request copies of patient records. ROI utilizes Eastman Workflow software.

On-Line Registration Processing
Provides an interactive, electronic pen-based module that allows patients to read, edit and sign consent forms and other documents on a portable tablet device. The forms are automatically filed in the patient's electronic folder.

The AccountVision Application Suite......a Patient Financial Services application

The AccountVision application suite is a Patient Financial Services application that enables hospitals and integrated delivery networks to streamline their business services operations from pre-admission and registration through account follow-up and final payment. AccountVision facilitates improved communications by providing immediate and simultaneous access to documents thus promoting prompt responses to patient and third-party inquiries concerning the patient bill and other correspondence. AccountVision's electronic financial folder concept closely integrates patient and non-patient documents to substantially improve productivity in a variety of areas, including secondary billing and claims follow-up. Utilizing the latest workflow technologies, AccountVision helps clients actively manage work in process by monitoring staff workloads, reassigning work to avoid backlogs and focusing work on appropriate revenue-producing tasks.

The AccountVision suite offers a unified database for patient folders (Medical Records) and non-patient folders (Patient Financial Services). The AccountVision application suite includes "Remittance Processing" which is a computer aided data entry application that applies optical character recognition and form recognition/processing technologies to automatically extract payment amounts and calculates adjustments from third-party payer remittance documents.

Virtual Healthware Services - VHS

Virtual Healthware Services became operational in April 1998, to give healthcare providers an even more cost-effective solution to managing patient information. Through its use of Internet/Intranet technology, VHS helps hospitals and integrated delivery networks overcome the barriers of high capital and start-up costs as well as the technological burdens of implementing a document imaging/management and workflow system. VHS delivers document imaging/management and workflow services to its healthcare customers on an outsourced basis from a central data center. Hospitals and integrated delivery systems can therefore take advantage of a private Intranet or the World Wide Web, the lowest cost network infrastructure, for truly enterprisewide, secure access to healthcare information.

AccessANYware(SM)

AccessANYware is an entirely new product offering which will be introduced in 1999. AccessANYware combines the features of the Company's entire product portfolio into a common Graphical User Interface and offers the additional benefit of a unified database for efficient system administration and elimination of redundant data entry.

WebView(TM) - Web-Enabling Tool

The Internet, "thin client" workstations and web-enabled applications have generated enormous excitement in the world of Healthcare Information Systems. Their potential positive impact on the Computerized Patient Record ("CPR") and document imaging is just now being realized. The Company believes these new technologies will combine to create sweeping changes in the way healthcare institutions manage, distribute and view their healthcare information. WebView will utilize the Internet/Intranet to allow remote users to easily access an integrated CPR and Document Imaging System virtually anywhere. The more important benefits include:

- - significantly lower maintenance and staff costs;

- - lower data center investment and operating costs;

- - the ability to seamlessly image-enable existing clinical, billing or other third-party information systems; and

- - a higher degree of desktop integration.

WebView uses a familiar Internet browser "look and feel" and combines the platform-independent technologies, open standards and "network-centric" architecture of the Internet with the Company's robust application suites. As an intuitive, flexible, cost-effective, and scaleable product, WebView provides organizations with a "technology bridge" connecting the Company's application suites with innovative Internet/Intranet technologies.

OmniVision - Image-Enabling Tool

LanVision's powerful image-enabling tool (OmniVision) and workflow technology allows healthcare users to immediately and simultaneously access any patient information, including multimedia and paper-based information, through their existing hospital information system applications. As a result, any application across the entire enterprise can be image-enabled, including the host Healthcare Information Systems, patient billing, Clinical Data Repositories, human resources, materials management and other systems. LanVision has image-enabled many popular Clinical Data Repositories, such as those offered by Cerner Corporation, IDX Systems Corporation and Oacis Healthcare Holdings Corp. When the Clinical Data Repository is image-enabled, users can seamlessly access any type of healthcare information on the same workstation and from the same screen display, including the point of patient care. This means that users can view traditional electronic data and images simultaneously on the same screen without signing in and out of multiple applications.

The OmniVision image-enabling tool includes a full automation interface using Object Linking and Embedding and Component Object Modeling standards that allow third-party products to easily make calls to OmniVision. OmniVision is in production in several large-scale, enterprisewide applications including over 2,000 workstations at Memorial Sloan-Kettering Cancer Center and is being deployed on over 1,000 workstations at UCSF Stanford Healthcare.

Professional Services

LanVision provides a full complement of professional services to implement its software applications. The Company believes that high quality consulting and professional implementation services are critical to attracting new customers and maintaining existing customer satisfaction. These services include implementation and training, project management, business process re-engineering and custom software development. The implementation and training services include equipment and software installation, system integration and comprehensive training. The project management services include needs and cost/benefit analysis, hardware and software configuration and business process re-engineering. The custom software development services include interface development and image-enabling other software applications.

The Company continues to focus its research and development efforts to develop new application software and increase the functionality of existing applications. Customer requirements and desires significantly influence the Company's research and development efforts. In 1996 and 1997, LanVision significantly expanded its development efforts. In late 1997 and early 1998, the Company completed many of its major development projects discussed above. Whereupon, the Company began to reduce the use of outside contractors and development staff as projects were completed. Accordingly, the Company intends to further reduce its product development expenses in fiscal 1999, as additional major projects are completed.

Product research and development expense was $3,740,215, $5,553,778 and $1,580,089 in 1998, 1997 and 1996, respectively. The Company capitalized $396,000, $396,000 and $170,000 in 1998, 1997 and 1996, respectively.

Existing Customers

The Company's customers include healthcare providers located throughout the United States. LanVision has implemented or is in the process of implementing one or more of its systems in the following institutions:

Albert Einstein Health Network, Philadelphia, PA
Beth Israel Medical Center, New York, NY;
    Phillips Ambulatory Care Center, New York, NY
Children's Medical Center of Dallas, Dallas, TX
Christiana Care Health Services, New Castle, DE
Cox Health Systems, Springfield, MO
Highland Park Hospital, Highland Park, IL
Holzer Medical Center, Gallipolis, OH
Medical College of Georgia, Augusta, GA
Medical University of South Carolina, Columbia, SC
Memorial Sloan-Kettering Cancer Center, New York, NY
OhioHealth Corporation: Grant/Riverside Methodist Hospitals, Columbus, OH
ProMedica Health Systems, Toledo, OH
St. Francis Hospital and Medical Center, Hartford, CT
Texas Health Resources, Inc.: Harris Methodist Hospital, Fort Worth, TX
UCSF Stanford Healthcare, Palo Alto, CA
University Hospital, Cincinnati, OH
University of Pittsburgh Medical Center, Pittsburgh, PA

VHS service bureau customer:

The Health Alliance, Inc., Cincinnati, OH

In addition to the institutions listed above, Shared Medical Systems Corporation has sold the LanVision Electronic Medical Record suite of products to five organizations as of March 31, 1999.

In fiscal year 1998, Beth Israel Medical Center, Medical University of South Carolina, and Memorial Sloan-Kettering Cancer Center, accounted for 10%, 9%, and 8%, respectively of the Company's total revenues. In fiscal year 1997, Children's Medical Center of Dallas, Beth Israel Medical Center, and Memorial Sloan-Kettering Cancer Center, accounted for 13%, 13%, and 12%, respectively of the Company's total revenues. In fiscal year 1996, University of Pittsburgh Medical Center, Beth Israel Medical Center and University Hospital, accounted for 21%, 17% and 11%, respectively, of the Company's total revenues. The small number of customers and the extended sales cycle have contributed to variability in quarterly and annual operating results. The Company expects that as its customer base continues to increase, and sales through the SMS Remarketing Agreement, the actions of any one customer will have less of an effect on its quarterly and annual operating results.

Signed Agreements - Backlog

LanVision enters into master agreements with its customers to specify the scope of the system to be installed and services to be provided by LanVision, the agreed upon aggregate price and the timetable for implementation. The master agreement typically provides that the Company will deliver the system in phases pursuant to the customer's purchase orders, thereby allowing the customer flexibility in the timing of its receipt of systems and to make adjustments that may arise based upon changes in technology or changes in customer needs. The master agreement also allows the customer to request additional components as the installation progresses, which additions are then separately negotiated as to price and terms. Historically, customers have ultimately purchased systems and services in addition to those originally contemplated by the master agreement, although there can be no assurance that this trend will continue in the future.

At January 31, 1999, the Company's customers (excluding customers of the Virtual Healthware Services division) had entered into master agreements for systems and services (excluding support and maintenance) which had not yet been delivered, installed and accepted which, if fully performed, would generate sales of approximately $7,000,000, compared with $8,000,000 at the end of fiscal 1997. The systems and services are currently expected to be delivered over the next two to three years. In addition, the Company anticipates approximately $2,000,000 in transaction-based fee revenues for the Virtual Healthware Services division's new client over the four-year life of the contract. Because implementation and service bureau fees are dependent upon the customer's schedule and usage, the Company is unable to predict accurately the amount of revenues in future periods.

The Company's master agreements also generally provide for an initial maintenance period and give the customer the right to subscribe for maintenance and support services on a monthly, quarterly or annual basis. Maintenance and support revenues for fiscal years 1998 and 1997 and 1996 were approximately $2,755,000, $2,151,000 and $1,186,000, respectively.

The commencement of revenue recognition varies depending on the size and complexity of the system, the implementation schedule requested by the customer and usage by customers of the VHS service bureau operations. Therefore, LanVision is unable to accurately predict the revenue it expects to achieve in any particular period. The Company's master agreements generally provide that the customer may terminate its agreement upon a material breach by the Company, or may delay certain aspects of the installation. There can be no assurance that a customer will not cancel all or any portion of master agreement or delay installations. A termination or installation delay of one or more phases of an agreement, or the failure of the Company to procure additional agreements, could have a material adverse effect on the Company's business, financial condition and results of operations.

Royalties

The Company incorporates software licensed from various vendors into its proprietary software. In addition, third-party, standalone software is required to operate the Company's proprietary software.

The Company licenses these software products, and pays the required royalties and/or license fees when such software is delivered to LanVision's customers.

Year 2000 Compliance

The Year 2000 Compliance issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Any of the Company's internal use computer programs and hardware as well as its software products that are date sensitive may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in normal business activities for both the Company and its customers who rely on its products.

The Company is in the final stages of reviewing, correcting and testing Year 2000 Compliance issues related to its internal use software and hardware and the Company's products, including third-party software components offered for resale.

The Company presently believes the Year 2000 Compliance issue will not pose significant operational problems for the Company or its customers. However, if such final testing and corrections are not completed in a timely manner, the Year 2000 Compliance issue could have a material impact on the Company and its customers.

The Company has divided the Year 2000 Compliance issue into two areas: software products and systems sold to customers and internal use software and hardware.

With regard to software products sold to customers, the Company has: completed the overall Year 2000 Compliance remediation plan; made a review of the existing software code; corrected all known Year 2000 code problems; developed a test plan; and tested the revised code for quality assurance. The Year 2000 quality assurance testing, which included integration testing of LanVision software products and other third-party software and hardware system components, has been completed and where necessary the code was modified. This testing and modification was done in several iterations. All LanVision Year 2000 Compliant software products have been scheduled for Beta testing at a customer site sometime in the first quarter of 1999. If in Beta testing any additional problems are encountered, the software code will be further modified and tested. The Year 2000 Compliant software Beta testing will be performed at selected customer sites using the customer's current hardware configurations. The Company believes that Year 2000 compatible equipment is available for acquisition by customers, if necessary, to ensure installed systems operate properly.

Should the LanVision systems sold to customers not be timely modified to be Year 2000 Compliant, the most likely worst case scenario would be that customers could: suspend use of the system until such time as the Year 2000 Compliance issues are remediated; or continue to use the systems with reduced functionality. However, based upon current information and the time remaining to complete the remediation, the Company believes that the risk of such occurrence is minimal. Contingency plans have not yet been developed. However, if needed, contingency plans will be developed.

With regard to the Company's service bureau operations, the Company has determined that its systems and equipment are Year 2000 Compliant, except for completing the Beta testing of the LanVision software products discussed above and telecommunications services provided by outside vendors. The Company is in the process of determining the Year 2000 Compliance issues that could affect operations should the telecommunications vendors not be compliant. Without Year 2000 Compliant LanVision software and telecommunications, the service bureau operations will not be able to provide current levels of services to its customers and no contingency plan has yet been developed. However, if needed, contingency plans will be developed.

With regard to internal use software and hardware, the Company has reviewed substantially all of the internally used software and equipment, and has determined that a small amount of older computer equipment must be replaced, but the type and amount are not significant and will be replaced in the ordinary course as systems are upgraded. With regard to third-party software, it has been determined that some software is not compliant and will be upgraded, in 1999, as vendors provide Year 2000 Compliant versions. The Company also utilizes third-party vendors for processing data and payments, e.g. payroll services, 401(k) plan administration, check processing, medical benefits processing, etc. The Company has initiated communications with its vendors to determine the status of their systems. The major vendors have advised the Company they are currently Year 2000 Compliant. No contingency plan has been developed. However, if needed, contingency plans will be developed.

The Company will utilize both internal and external resources to reprogram, or replace and test its software products for the Year 2000 Compliance modifications. The Company anticipates completing the Year 2000 Compliance project as soon as practical, but not later than July 31, 1999, which is prior to any anticipated impact. The total cost of the Year 2000 Compliance remediation is not considered to be material (less than $500,000), and the remaining remediation, estimated at less than $200,000, will be funded through existing cash resources and future operating cash flows. The requirements for the correction of Year 2000 Compliance issues and the date on which the Company believes it will complete the Year 2000 Compliance modifications are based on management's current best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that may cause such material differences include, but are not limited to, the availability of personnel trained in this area, the ability to locate and collect all relevant computer codes and similar uncertainties.

The Company has warranted, to certain customers, that its products will be Year 2000 Compliant. If the Company were unable to provide a Year 2000 Compliant solution to the customers, the customers could claim breach of contract and seek available legal remedies. Provisions of the Company's long-term debt agreement and the Remarketing Agreement with SMS required the Company's products be Year 2000 Compliant by December 31, 1998. Although, LanVision's products were modified to be Year 2000 Compliant by December 31, 1998, all Alpha and Beta testing was not completed as of that date. Waivers of compliance have been received from the lender and the Remarketing Agreement with SMS is being amended. If the Company's products are not Year 2000 Compliant by July 31, 1999, and a waiver of compliance from the lender or SMS can not be obtained relative to that date, this would be an event of default of the long-term debt agreement and may give rise to legal action for breach of contract under the SMS Remarketing Agreement. Based upon the current best estimate for remediation of the Year 2000 Compliance issues, the Company believes the risk is minimal that the Company will not comply with current commitments.

Competition

Several companies historically have dominated the Healthcare Information Access Systems market. The industry is currently undergoing consolidation and realignment as companies position themselves to compete more effectively. Strategic alliances between vendors of Healthcare Information Access Systems and vendors of other healthcare systems are increasing. Barriers to entry to this market include technological and application sophistication, the ability to offer a proven product, a well-established customer base and distribution channels, brand recognition, the ability to operate on a variety of operating systems and hardware platforms, the ability to integrate with pre-existing systems and capital for sustained development and marketing activities. The Company believes that these barriers taken together represent a moderate to high level barrier to entry. Foreign competition has not been a significant factor in the market, to date.

The Company's competitors include Healthcare Information Access Systems vendors that are larger and more established and have substantially more resources than the Company. In addition, information and document management companies serving other industries may enter the market. Suppliers and companies with whom LanVision may establish strategic alliances may also compete with LanVision. Such companies and vendors may either individually, or by forming alliances excluding LanVision, place bids for large agreements in competition with LanVision. A decision on the part of any of these competitors to focus additional resources in the image-enabling and other markets addressed by LanVision could have a material adverse effect on LanVision.

LanVision believes that the principal competitive factors in its market are customer recommendations and references, company reputation, system reliability, system features (including ease of use), technological advancements, customer service and support, the effectiveness of marketing and sales efforts, price and the size and perceived financial stability of the vendor. In addition, LanVision believes that the speed with which companies in its market can anticipate the evolving healthcare industry structure and identify unmet needs are important competitive factors. There can be no assurance that the Company will be able to compete successfully in the future against existing or potential competitors.

LanVision believes that its principal competitors are: American Management Systems, Incorporated; IMNET Systems, Inc. (a subsidiary/division of Mekesson HBOC, Inc.); MedPlus, Inc. and Intelus Corporation of the SunGard Healthcare Information Systems Group of SunGard Data Systems, Inc. On March 2, 1998, Eclipsys Corporation, announced that it had entered into an agreement to acquire Intelus Corporation and Med Data Systems, Inc. from SunGuard Data Systems, Inc.

Employees

As of March 31, 1999, LanVision had 68 full-time employees. In addition, the Company utilizes independent contractors to supplement its staff, as needed. None of the Company's employees are represented by a labor union or subject to a collective bargaining agreement. LanVision has never experienced a work stoppage and believes that its employee relations are good.

Liquidity and Capital Resources

Since its inception in 1989, the Company has funded its operations, working capital needs and capital expenditures primarily from a combination of cash generated by operations, a 1994 private placement of convertible redeemable preferred stock, an initial public offering and borrowings, including, a $6,000,000 loan in July, 1998.

The Company's customers typically have been well-established hospitals or medical facilities with good credit histories, and payments have been received within normal time frames for the industry. However, recently some healthcare organizations have experienced significant operating losses as a result of limits on third-party reimbursements from insurance companies and governmental entities. Agreements with customers often involve significant amounts and contract terms typically require customers to make progress payments.

The Company has no significant obligations for capital resources, other than noncancelable operating leases in the total amount of approximately $2,109,000, payable over the next five years. However, the VHS service bureau operations will need to acquire additional software and equipment as VHS adds additional hospitals and clinics to its customer base. The central data center has been configured to serve approximately fifty hospitals, with significant expansion capabilities. However, for certain new customers VHS will operate one or more onsite document capture centers and will provide the necessary scanning equipment. Each document capture center is expected to require approximately $125,000 of equipment. Also, because VHS charges for its services on a per transaction fee basis, the Company's cash flow for capital and operating expenses will normally be greater than cash inflows until customers begin to use the system at anticipated normal volumes for a period of time.

Over the last several years, the Company's revenues have been less than the Company's internal plans. However, during the same time period, the Company has expended significant amounts for capital expenditures, product research and development, sales, support and consulting expenses as the Company expanded its operations in anticipation of significant revenue growth. This has resulted in significant net cash outlays over the last three years. Although the Company has increased its revenues, reduced staffing levels and related expenses, and improved operating performance, the Company's expenses continue to exceed its revenues. Accordingly, to achieve profitability, and positive cash flow, it is necessary for the Company to increase revenues or continue to reduce expenses. Management believes that the recent general release of the products described above under "Product Research and Development" has significantly strengthened the product lines. Additionally, the SMS Remarketing Agreement has significantly expanded the sales distribution capabilities, and management believes that market opportunities are such that the Company should be able to continue to increase its revenues. However, there can be no assurance the Company will be able to continue to increase its revenues.

At January 31,1999, the Company had cash and cash equivalents of $5,445,498. Cash equivalents consist primarily of overnight bank repurchase agreements. Under the terms of its loan agreement, the Company has agreed to maintain a minimum cash and investment balance of $2,400,000.

Management has significantly reduced operating expenses throughout 1998, and believes the Company could achieve break-even or profitability in fiscal year 1999, before interest expense, on a revenue increase similar to 1998. However, based upon current expenditure levels and in the absence of increased revenues, the Company would continue to operate at a loss. Accordingly, for the foreseeable future, management will need to continually assess its revenue prospects compared to its current expenditure levels. If it does not appear likely that revenues will increase, it will be necessary to further reduce operating expenses or raise cash through additional borrowings, the sale of assets, or other equity financing. Certain of these actions will require lender approval. However, there can be no assurance the Company will be successful in any of these efforts. If it is necessary to significantly reduce operating expenses, this could have an adverse affect on future operating performance.

In December 1998, the Company retained CIBC Oppenheimer Corp. as a financial advisor to help the Company plan for future capital needs and assist the Company with decisions that maximize shareholder value.

To date, inflation has not had a material impact on the Company's revenues or expenses. Additionally, the Company does not have any significant market risk exposure at January 31, 1999.

ITEM 2. PROPERTIES

The Company's principal administrative and sales offices are located at One Financial Way, Suite 400, Cincinnati, Ohio 45242-5859. The offices consist of approximately 15,300 square feet of space under a lease that expires in August, 2001. The rental expense for these offices approximates $335,000 annually.

The Company also leases office space for its software engineering, research and development, training and documentation operations at 5481 Creek Road, Cincinnati, Ohio 45242-4001. The offices consist of approximately 15,000 square feet of space under a lease that expires in April, 2000. The rental expense for these offices approximates $112,000 annually.

The Company also leases office space for a portion of its software engineering and research and development operations at 5970 Fairview Road, Suite 650, Charlotte, North Carolina 28210-3167. The offices consist of approximately 3,800 square feet of space under a lease that expires in September, 1999. The rental expense for these offices approximates $135,000 annually.

The Company also leases office space for its VHS Data Center and services and support staff at 4700 Duke Drive, Suite 170, Mason, OH 45040-9374. The offices consist of approximately 9,200 square feet of office space and data center under a lease that expires in June, 2003. The rental expense for these facilities approximates $109,000 annually.

The Company believes that its facilities are adequate for its current needs and that suitable additional or substitute space will be available as needed to accommodate expansion of the Company's operations. The Company currently has excess facilities (One Financial Way & Fairview Road) and has engaged brokers to sublease or re-negotiate existing long-term lease agreements on these two facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company may be subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims can not be predicted with certainty at this time, management is not aware of any legal matters that will have a material adverse effect on the Company's consolidated results of operations or consolidated financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions held by the Executive Officers of the Company on April 26, 1998 are:

Name	Age	Position(1)	Elected to Present Position(2)
J. Brian Patsy	48	Chairman of the Board, President, Chief Executive Officer, and Director	1989
Eric S. Lombardo	46	Executive Vice President, Director, President of the VHS Division, and Corporate Secretary	1989
Thomas E. Perazzo	45	Chief Operating Officer, Chief Financial Officer, and Treasurer	1997

(1) All current officers of the Company hold office until their successors are elected and qualified or until any removal or resignation. Officers of the Company are elected by the Board of Directors and serve at the discretion of the Board. For purposes of the descriptions of the background of the Company's Executive Officers, the term "Company" refers to both LanVision Systems, Inc. and its predecessor LanVision, Inc."

(2) Represents date of election to Registrant or its predecessor.

J. Brian Patsy is a co-founder of the Company and has served as the President, and a Director since the Company's inception in October, 1989. Mr. Patsy was appointed Chairman of the Board and Chief Executive Officer in March, 1996. Mr. Patsy has over 26 years of experience in the information technology industry.

Eric S. Lombardo is a co-founder of the Company, has served as a Director since the Company's inception and as Executive Vice President of the Company since May, 1990. Mr. Lombardo has over 24 years of experience in the information technology industry.

Thomas E. Perazzo joined the Company in January 1996 as Chief Financial Officer. In September 1997, he assumed the additional responsibility of Chief Operating Officer. From 1993 until he joined the Company, Mr. Perazzo served as Controller or Chief Financial Officer of Cincom Systems, Inc., an international software development and marketing company. Prior to 1992, Mr. Perazzo was a partner of KPMG Peat Marwick LLP, in Cincinnati, Ohio. Mr. Perazzo is a Certified Public Accountant (inactive).

All Executive Officers currently have employment agreements with the Company that generally provide annual salaries, minimum bonuses, discretionary bonuses, stock incentive provisions and severance arrangements.

There are no family relationships between any Director or Executive Officers and any other Director or Executive Officers of the Registrant.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The Company's Common Stock trades on The Nasdaq Stock Market's National Market under the symbol LANV. The table below sets forth the high and low sales prices for LanVision Systems, Inc. Common Stock for each of the quarters in fiscal years 1998 and 1997, as reported by The Nasdaq Stock Market, Inc.

Fiscal Year 1998	High	Low
1st Quarter (February 1, 1998 through April 30, 1998)	$ 5.87	$ 3.62
2nd Quarter (May 1, 1998 through July 31, 1998)	4.62	2.50
3rd Quarter (August 1, 1998 through October 31, 1998)	3.37	0.87
4th Quarter (November 1, 1998 through January 31, 1999)	3.25	0.90

Fiscal Year 1997	High	Low
1st Quarter (February 1, 1997 through April 30, 1997)	$ 8.00	$ 3.37
2nd Quarter (May 1, 1997 through July 31, 1997)	6.75	4.50
3rd Quarter (August 1, 1997 through October 31, 1997)	8.00	4.62
4th Quarter (November 1, 1997 through January 31, 1998)	6.75	4.25

The market price of the Company's Common Stock has fluctuated significantly since the initial public offering in April, 1996. The market price of the Common Stock could be subject to significant fluctuations based on factors such as announcements of new products or customers by the Company or its competitors, quarterly fluctuations in the Company's financial results or other competitors' financial results, changes in analysts' estimates of the Company's financial performance, general conditions in the healthcare imaging industry as well as conditions in the financial markets. In addition, the stock market in general has experienced extreme price and volume fluctuations which have particularly affected the market price of many high technology companies and which have been often unrelated to the operating performance of a specific company. Many technology companies, including the Company, have recently experienced fluctuations in the market price of their equity securities. There can be no assurance that the market price of the Common Stock will not decline, or otherwise continue to experience significant fluctuations in the future.

According to the transfer agent records, the Company has 138 stockholders of record as of April 21, 1999. Because many of such shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to determine with complete accuracy the total number of stockholders represented by these record holders. The Company estimates that it has approximately 2,300 stockholders.

The Company has not paid any cash dividends on its Common Stock since its inception and does not intend to pay any cash dividends in the foreseeable future due to the restrictive financial covenants in its long-term debt agreement.

On July 17, 1998, the Company issued a $6,000,000 note, in a private placement, to The HillStreet Fund, L.P., which bears interest at 12%, payable monthly. The note is repayable in quarterly installments of $500,000 commencing October, 2001 through July, 2004. In July, 2002, the Company has a one-time option to prepay, in full, the then outstanding balance of the note. The note is secured by all of the assets of the Company and the loan agreement restricts the Company from incurring additional indebtedness for borrowed money, including capitalized leases, limits certain investments, restricts substantial asset sales, capital expenditures, cash dividends, stock repurchases and mergers and consolidations with unaffiliated entities. In addition, the Company is required to maintain certain financial conditions, including minimum levels of revenues, combined cash and investments and net worth.

In connection with the issuance of the note, the Company issued Warrants to purchase 750,000 shares of Common Stock of the Company at $3.87 per share at any time after May 16, 1999 through July 16, 2008. The Warrants are subject to customary antidilution and registration rights provisions.

Under the terms of the loan agreement, the Company has guaranteed the lender that the increase in the market value of the stock underlying the Warrants, at the time of loan maturity, over the exercise price plus the 12% interest paid on the loan will yield the lender a 25% compound annual return. If the yield from the Warrants plus interest paid does not provide the lender with the guaranteed return, the Company is required to pay the additional amount in cash at the time of maturity. Accordingly, the Company is accruing interest on the loan at a 25% compound interest rate, regardless of the market value of the stock and the inherent value of the Warrants. Should the Company exercise its prepayment option in July, 2002, then the minimum guaranteed rate of return is increased to 30%. However, to the extent that the computed minimum compound annual rate of return exceeds 30% at the date of the prepayment, the Company has the right to cancel up to 150,000 Warrants.

In addition, the founders and majority shareholders of the Company have consented to certain restrictions on the sale or transfer of their shares.

Maturities of long-term debt are as follows: fiscal years 1999 and 2000, $-0-; 2001, $1,000,000; 2002, $2,000,000; 2003, $2,000,000; 2004, $1,000,000.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth consolidated financial data with respect to the Company for each of the five years in the period ended January 31, 1999. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes incorporated herein by reference elsewhere in this Annual Report on Form 10-K report.

	Fiscal Year(1)				
(In thousands, except per share data)	1998	1997	1996	1995	1994
Total revenues	$ 12,010	$ 8,676	$ 10,310	$ 5,019	$ 2,412
Total operating expenses	22,470	22,493	16,271	5,324	3,105
Operating (loss)	(10,460)	(13,818)	(5,961)	(306)	(693)
Net (loss)	(10,926)	(12,669)	(4,669)	(326)	(572)
Basic net (loss) per share of common stock	(1.24)	(1.44)	(.56)	(.05)	(.09)
Diluted net (loss) per share of common stock	(1.24)	(1.44)	(.56)	(.05)	(.09)
Total assets	17,485	22,200	33,300	3,046	1,518
Convertible redeemable preferred stock	-	-	-	850	850
Total stockholders' equity (deficit)	5,847	16,816	29,921	(646)	(319)
Weighted average shares outstanding	8,811	8,827	8,284	6,190	6,190
Cash dividends declared	-	-	-	-	-

(1) All references to a fiscal year refer to the fiscal year of the Company commencing February 1 of that calendar year and ending on January 31 of the following year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information regarding Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations as required by Item 303 of Regulation S-K is incorporated herein by reference from pages 8 through 16 of the Company's 1998 Annual Report to Stockholders appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company currently invests its cash balances, in excess of its current needs, in overnight bank deposits. In prior years, the Company invested excess funds in US Government Securities. The Company did not invest for the purposes of trading in securities, however, the portfolio was managed and invested for maximum return on the investments. The marketable securities at January 31, 1998, which were recorded at a fair value of $8,909,166 and include unrealized gains of $75,203, had exposure to price risk. This risk was estimated, absent any economic justification for the selection of a different amount, as the potential loss in fair value resulting from a hypothetical 10% adverse change in price quoted by dealers and amounts to $890,916.

The fair market values of investment securities were based on the quoted market prices at the reporting date for those investments. The estimated fair market value of investment securities by contractual maturity at January 31, 1998 was as follows: $5,074,258 in 1998, $3,334,988 in 1999, and $499,920 in 2000.

During Fiscal 1998, all of the investments were sold to fund current operations, and no similar investments were made subsequent thereto.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Financial Statements are incorporated herein by reference from pages 18 through 29 of the Company's 1998 Annual Report to Stockholders. The supplementary quarterly financial information regarding the Company as required by Item 302 of Regulation S-K is incorporated herein by reference from page 29 of the Company's 1998 Annual Report to Stockholders appearing under the caption "Quarterly Results of Operations (Unaudited)".

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

No change in the Company's auditors has taken place within the twenty-four months prior to, or in any period subsequent to, the Company's January 31, 1999 Financial Statements.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding Directors required by Items 401 and 405 of Regulation S-K is incorporated herein by reference from the Company's Definitive Proxy Statement for its Annual Stockholder's Meeting to be held on May 26, 1999 from the information appearing under the caption "Election of Directors" and "Stock Ownership by Certain Beneficial Owners and Management." Certain information regarding the Company's Executive Officers is set forth in Part I, Item 4 of this Form 10-K under the caption "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION

The information regarding Executive Compensation required by Item 402 of Regulation S-K is incorporated herein by reference from the Company's Definitive Proxy Statement for its Annual Stockholder's Meeting to be held on May 26, 1999 from the information appearing under the caption "Executive Compensation", except that the information required by Item 402 (k) and (l) of Regulation S-K which appears within such caption under the subheading "Compensation Committee Report" and the caption "Stock Performance Graph" and set forth in the Company's Definitive Proxy Statement for its Annual Stockholder's Meeting to be held on May 26, 1999 is specifically not incorporated herein by reference into this Form 10-K or into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding Security Ownership of the Company's Common Stock by certain beneficial owners and management required by Item 403 of Regulation S-K is incorporated herein by reference from the Company's Definitive Proxy Statement for its Annual Stockholder's Meeting to be held on May 26, 1999 from the information appearing under the caption "Stock Ownership by Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information regarding certain relationships and related transactions required by Item 404 of Regulation S-K is incorporated herein by reference from the Company's Definitive Proxy Statement for its Annual Stockholder's Meeting to be held on May 26, 1999 from the information appearing under the caption "Certain Relationships and related Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

FINANCIAL STATEMENTS

The following Consolidated Financial Statements of the Company included in the Company's 1998 Annual Report to Stockholders are incorporated herein by reference from pages 17 through 29 of the Annual Report. Reference is also made to Item 8 of this Form 10-K.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULE

The following Financial Statement Schedule of LanVision Systems, Inc. is included in this Item 14.

Schedule	Description
II	Valuation and Qualifying Accounts and Reserves

All other schedules have been omitted because the information either has been shown in the Consolidated Financial Statements or Notes thereto, or is not applicable or required under the instructions.

The Report of Independent Auditors on the Financial Statement Schedule of LanVision Systems, Inc. is included in Exhibit 23.1 of this Form 10-K.

EXHIBITS

Exhibit No.		Description of Exhibit
3.1		Certificate of Incorporation of LanVision Systems, Inc.
3.2		Bylaws of LanVision Systems, Inc.
3.3		Certificate of the Designations, Powers, Preferences and Rights of the Convertible Preferred Stock (Par Value $.01 Per Share) of LanVision Systems, Inc.
4.1		Specimen Common Stock Certificate of LanVision Systems, Inc.
4.2		Specimen Preferred Stock Certificate of LanVision Systems, Inc.
4.3(a)		Loan and Security Agreement between The HillStreet Fund L.P. and LanVision Systems, Inc.
4.3(b)		First Amendment to the Loan and Security Agreement between The HillStreet Fund L.P. and LanVision Systems, Inc.
10.1	#	LanVision Systems, Inc. 1996 Employee Stock Option Plan
10.2(a)	#	LanVision Systems, Inc. 1996 Non-Employee Directors Stock Option Plan
10.2(b)	#	First Amendment to LanVision Systems, Inc. 1996 Non-Employee Directors Stock Option Plan
10.3	#	LanVision Systems, Inc. 1996 Employee Stock Purchase Plan
10.4(a)	#	Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements
10.4(b)	#	First Amendment to Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements
10.4(c)	#	Second Amendment to Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements
10.5	#	George E. Castrucci Option Agreement
10.6(a)	#	Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and J. Brian Patsy effective January 1, 1996
10.6(b)	#	First Amendment to the Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and J. Brian Patsy effective September 25, 1998
10.7(a)	#	Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Eric S. Lombardo effective January 1, 1996
10.7(b)	#	First Amendment to the Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Eric S. Lombardo effective September 25, 1998
10.8(a)	#	Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Thomas E. Perazzo effective January 30, 1996
10.8(b)	#	First Amendment to the Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Thomas E. Perazzo effective January 29, 1999
10.9(a)		Stock Purchase and Shareholder Agreement among LanVision, Inc.,

	Blue Chip Capital Fund Limited Partnership, J. Brian Patsy and Eric s. Lombardo dated December 1, 1994
10.9(b)	Amendment No. 1 to Stock Purchase and Shareholder Agreement among Blue Chip Capital Fund Limited Partnership, LanVision, Inc., J. Brian Patsy, Eric S. Lombardo and LanVision Systems, Inc. dated February 8, 1996
10.10	Consent by Blue Chip Capital Fund Limited Partnership dated February 8, 1996
10.11(a)	Lease for office space between Duke Realty Limited Partnership and LanVision, Inc., dated May 7, 1996
10.11(b)	First amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated July 12, 1996
10.11(c)	Second amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated February 25, 1997
10.11(d)	Third amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated September 23, 1997
10.11(e)	Fourth amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated January 16, 1998
10.12(a)	Lease for office space between Green Realty Corporation and LanVision, Inc., dated April 7, 1997
10.12(b)	First amendment to lease between Green Realty Corporation and LanVision, Inc., dated June 6, 1997
10.13(a)	Lease for office space between Fairview Plaza Associates Limited Partnership and LanVision, Inc., dated February 26, 1996
10.13(b)	First amendment to lease between Fairview Plaza Associates Limited Partnership, Lessor and LanVision, Inc., Lessee, dated August 12, 1996
10.13(c)	Second amendment to lease between Fairview Plaza Associates Limited Partnership and LanVision, Inc., dated May 21, 1997
10.14(a)	Lease for office space between Duke Realty Limited Partnership and LanVision, Inc., dated September 23, 1997
10.14(b)	First amendment to office lease between Duke Realty Limited Partnership and LanVision, Inc., dated January 16, 1998
10.15	Marketing Agreement between Shared Medical Systems Corporation and LanVision Systems, Inc. and LanVision, Inc. entered into on February 21, 1998
10.16	Form of Indemnification Agreement for all directors and officers
11.1	Statement Regarding Computation of Per Share Earnings
13.1	Annual Report to Stockholders
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Auditors
27.1	Financial Data Schedule

Management Contracts and Compensatory Arrangements

REPORTS ON FORM 8-K

During the fourth quarter of fiscal 1998, the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANVISION SYSTEMS, INC.

DATE: April 26, 1999 By: /s/ J. BRIAN PATSY

J. Brian Patsy
Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

/s/ J. Brian Patsy J. Brian Patsy	Chief Executive Officer and Director	April 26, 1999
/s/ Eric S. Lombardo Eric S. Lombardo	Director	April 26, 1999
/s/ George E. Castrucci George E. Castrucci	Director	April 26, 1999
/s/ Z. David Patterson Z. David Patterson	Director	April 26, 1999
/s/ Thomas E. Perazzo Thomas E. Perazzo	Chief Financial Officer and Chief Accounting Officer	April 26, 1999

Schedule II Valuation and Qualifying Accounts and Reserves

LanVision Systems, Inc.
For the three years ended January 31, 1999

(in thousands) Description	Balance at Beginning of Period	Additions: Charged to costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Year ended January 31, 1999:	$	$	$	$	$
Allowance for doubtful accounts	265	60	-	-	325
Warranty reserve	265	35	-	-	300
Year ended January 31, 1998:					
Allowance for doubtful accounts	205	60	-	-	265
Warranty reserve	164	135	-	34	265
Year ended January 31, 1997:					
Allowance for doubtful accounts	75	130	-	-	205
Warranty reserve	75	95	-	6	164

INDEX TO EXHIBITS

EXHIBITS

Exhibit No.		Description of Exhibit	
3.1		Certificate of Incorporation of LanVision Systems, Inc.	*(1)
3.2		Bylaws of LanVision Systems, Inc.	*(1)
3.3		Certificate of the Designations, Powers, Preferences and Rights of the Convertible Preferred Stock (Par Value $.01 Per Share) of LanVision Systems, Inc.	*(1)
4.1		Specimen Common Stock Certificate of LanVision Systems, Inc.	*(1)
4.2		Specimen Preferred Stock Certificate of LanVision Systems, Inc.	*(1)
4.3(a)		Loan and Security Agreement between The HillStreet Fund L.P. and LanVision Systems, Inc.	*(14)
4.3(b)		First Amendment to the Loan and Security Agreement between The HillStreet Fund L.P. and LanVision Systems, Inc.	*(17)
10.1	#	LanVision Systems, Inc. 1996 Employee Stock Option Plan	*(1)
10.2(a)	#	LanVision Systems, Inc. 1996 Non-Employee Directors Stock Option Plan	*(1)
10.2(b)	#	First Amendment to LanVision Systems, Inc. 1996 Non-Employee Directors Stock Option Plan	*(2)
10.3	#	LanVision Systems, Inc. 1996 Employee Stock Purchase Plan	*(1)
10.4(a)	#	Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements	*(19)
10.4(b)	#	First Amendment to Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements	*(20)
10.4(c)	#	Second Amendment to Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements	*(21)
10.5	#	George E. Castrucci Option Agreement	*(18)
10.6(a)	#	Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and J. Brian Patsy effective January 1, 1996	*(1)
10.6(b)	#	First Amendment to the Employment Agreement among LanVision Systems, Inc. LanVision, Inc. and J. Brian Patsy effective September 25, 1998	*(15)
10.7(a)	#	Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Eric S. Lombardo effective January 1, 1996	*(1)
10.7(b)	#	First Amendment to the Employment Agreement among LanVision Systems, Inc., LanVision, Inc., and Eric S. Lombardo effective September 25, 1998	*(16)
10.8(a)	#	Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Thomas E. Perazzo effective January 30, 1996	*(1)
10.8(b)	#	First Amendment to the Employment Agreement among LanVision Systems, Inc., LanVision, Inc., and Thomas E. Perazzo effective January 29, 1999	***

10.9(a)	Stock Purchase and Shareholder Agreement among LanVision, Inc., Blue Chip Capital Fund Limited Partnership, J. Brian Patsy and Eric s. Lombardo dated December 1, 1994	*(1)
10.9(b)	Amendment No. 1 to Stock Purchase and Shareholder Agreement among Blue Chip Capital Fund Limited Partnership, LanVision, Inc., J. Brian Patsy, Eric S. Lombardo and LanVision Systems, Inc. dated February 8, 1996	*(1)
10.10	Consent by Blue Chip Capital Fund Limited Partnership dated February 8, 1996	*(1)
10.11(a)	Lease for office space between Duke Realty Limited Partnership and LanVision, Inc., dated May 7, 1996	*(3)
10.11(b)	First amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated July 12, 1996	*(4)
10.11(c)	Second amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated February 25, 1997	*(5)
10.11(d)	Third amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated September 23, 1997	*(11)
10.11(e)	Fourth amendment to office lease with Duke Realty Limited Partnership and LanVision, Inc., dated January 16, 1998	*(12)
10.12(a)	Lease for office space between Green Realty Corporation and LanVision, Inc., dated April 7, 1997	*(6)
10.12(b)	First amendment to lease between Green Realty Corporation and LanVision, Inc., dated June 6, 1997	*(8)
10.13(a)	Lease for office space between Fairview Plaza Associates Limited Partnership and LanVision, Inc., dated February 26, 1996	*(1)
10.13(b)	First amendment to lease between Fairview Plaza Associates Limited Partnership, Lessor and LanVision, Inc., Lessee, dated August 12, 1996	*(7)
10.13(c)	Second amendment to lease between Fairview Plaza Associates Limited Partnership and LanVision, Inc., dated May 21, 1997	*(9)
10.14(a)	Lease for office space between Duke Realty Limited Partnership and LanVision, Inc., dated September 23, 1997	*(10)
10.14(b)	First amendment to office lease between Duke Realty Limited Partnership and LanVision, Inc., dated January 16, 1998	*(13)
10.15**	Marketing Agreement between Shared Medical Systems Corporation and LanVision Systems, Inc. and LanVision, Inc. entered into on February 21, 1998	***
10.16	Form of Indemnification Agreement for all directors and officers	*(1)
11.1	Statement Regarding Computation of Per Share Earnings	***
13.1	Annual Report to Stockholders	***
21.1	Subsidiaries of the Registrant	***
23.1	Consent of Independent Auditors	***
27.1	Financial Data Schedule	***

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* Incorporated by reference from document indicated below.
** The Company has applied for Confidential Treatment of portions of this agreement with the Securities and Exchange Commission
*** Included herein
# Management Contracts and Compensatory Arrangements.

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(1) Previously filed with the Commission, and incorporated herein by reference from, the Registrant's Registration Statement on Form S-1, File Number 333-01494, as filed with the Commission on April 15, 1996.
(2) Previously filed with the Commission and incorporated herein by reference from Exhibit 4.1(b) of, the Registrant's Registration Statement on Form S-8, file number 333-20765, as filed with the Commission on January 31, 1997.
(3) Previously filed with the Commission as Exhibit 10 of the Registrant's Form 10-Q for the quarter ended April 30, 1996, as filed with the Commission on June 12, 1996.
(4) Previously filed with the Commission as Exhibit 10 of the Registrant's Form 10-Q for the quarter ended July 31, 1996, as filed with the Commission on September 4, 1996.
(5) Previously filed with the Commission as Exhibit 10.12(c) of the Registrant's Form 10-K for the fiscal year ended January 31, 1997, as filed with the Commission on April 29, 1997.
(6) Previously filed with the Commission as Exhibit 10.13 of the Registrant's Form 10-K for the fiscal year ended January 31, 1997, as filed with the Commission on April 29, 1997.
(7) Previously filed with the Commission as Exhibit 10.14(b) of the Registrant's Form 10-K for the fiscal year ending January 31, 1997, as filed with the Commission on April 29, 1997.
(8) Previously filed with the Commission as Exhibit 10.1 of the Registrant's Form 10-Q for the quarter ended July 31, 1997, as filed with the Commission on September 10, 1997.
(9) Previously filed with the Commission as Exhibit 10.2 of the Registrant's Form 10-Q for the quarter ended July 31, 1997, as filed with the Commission on September 10, 1997.
(10) Previously filed with the Commission as Exhibit 10.1 of the Registrant's Form 10-Q for the quarter ended October 31, 1997, as filed with the Commission on December 10, 1997.
(11) Previously filed with the Commission as Exhibit 10.2 of the Registrant's Form 10-Q for the quarter ended October 31, 1997, as filed with the Commission on December 10, 1997.
(12) Previously filed with the Commission as Exhibit 10.12(e) of the Registrant's Form 10-K for the fiscal year ending January 31, 1998, as filed with the Commission on April 30, 1998.
(13) Previously filed with the Commission as Exhibit 10.15(b) of the Registrant's Form 10-K for the fiscal year ending January 31, 1998, as filed with the Commission on April 30, 1998.
(14) Previously filed with the Commission as Exhibit 10.1 of the Registrant's Form 8-K, as filed with the Commission on July 24, 1998.
(15) Previously filed with the Commission as Exhibit 10(a) of the Registrant's Form 10-Q for the quarter ended October 31, 1998, as filed with the Commission on December 11, 1998.
(16) Previously filed with the Commission as Exhibit 10(b) of the Registrant's Form 10-Q for the quarter ended October 31, 1998, as filed with the Commission on December 11, 1998.

(17) Previously filed with the Commission as Exhibit 10(c) of the Registrant's Form 10-Q for the quarter ended October 31, 1998, as filed with the Commission on December 11, 1998.

(18) Previously filed with the Commission as Exhibit 4.1 of the Registrant's Form S-8, file number 333-20763, as filed with the Commission on January 31, 1997.

(19) Previously filed with the Commission as Exhibit 4.1(a and b) of the Registrant's Form S-8, file number 333-20761, as filed with the Commission on January 31, 1997.

(20) Previously filed with the Commission as Amendment No. 1 of the Registrant's Form S-8, file number 333-20761, as filed with the Commission on September 14, 1998.

(21) Previously filed with the Commission as Amendment No. 2 of the Registrant's Form S-8, file number 333-20761, as filed with the Commission on January 27, 1999.

Exhibit 10.8(b)

LANVISION SYSTEMS, INC.

FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT AMONG LANVISION SYSTEMS, INC., LANVISION, INC. AND THOMAS E. PERAZZO

AMENDMENT
TO
EMPLOYMENT AGREEMENT

This Amendment modifies the Employment Agreement among LanVision Systems, Inc., LanVision, Inc., and Thomas E. Perazzo dated January 30, 1996 ("Agreement").

1. Notwithstanding Section 10, Term of the Agreement, the term of the Agreement shall continue through March 31, 2001.

2. In Paragraphs 11(D) and 12, the phrase "a lump sum amount equal to three-quarters times the Employee's annual salary and bonus at the time of termination" shall be changed at each appearance to read as follows: "a lump sum equal to one times the Employee's annual salary and bonus, excluding discretionary bonuses, at the time of termination".

Thomas E. Perazzo	LanVision Systems, Inc. and LanVision Inc.
/ s / Thomas E. Perazzo	By: / s / J. Brian Patsy
	J. Brian Patsy Chief Executive Officer
1/29/99	1/29/99
(Date)	(Date)

Exhibit 10.15
LANVISION SYSTEMS, INC.

MARKETING AGREEMENT BETWEEN SHARED MEDICAL SYSTEMS CORPORATION AND LANVISION SYSTEMS, INC. AND LANVISION, INC. ENTERED INTO ON FEBRUARY 21, 1998

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AGREEMENT

THIS AGREEMENT ("Agreement") is made and entered into this 21st day of February, 1998 by and between SHARED MEDICAL SYSTEMS CORPORATION, located at 51 Valley Stream Parkway, Malvern, Pennsylvania 19355 ("SMS") and LANVISION SYSTEMS, INC., located at One Financial Way, Suite 400, Cincinnati, Ohio 45242, and LANVISION, INC., located at the same address (collectively, LanVision Systems, Inc. and LanVision, Inc. shall be referred to as "LanVision").

1. Background.

(a) SMS is in the business of providing health information systems and services to the health industry. LanVision is in the business of providing computer software applications and services in document imaging and workflow technologies to the health industry The following definitions shall apply:

(i) "Base Fee" shall mean an amount to be used for calculating Software royalties due LanVision from SMS. The initial Base Fee is set forth in Exhibit H. The Base Fee shall be adjusted, pursuant to the provisions of Exhibit H, based on the actual sales experience of LanVision during the preceding measurement period.

(ii) "Deliverables" shall mean the Software, Software-related programming changes, and all associated Technical Materials and Documentation. The Deliverables existing as of the date of this Agreement are also listed in Exhibit A.

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

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(iii) "Documentation" shall mean the technical and user manuals, instructions and user guides, including updates thereto, relating to the Software, whether in printed or electronic format, developed by or on behalf of LanVision. Documentation existing as of the date of this Agreement is listed in Exhibit A.

(iv) "End User" shall mean any SMS Client that enters into a license agreement with SMS that includes the Software.

(v) "First-Level Support" shall mean issue recognition and problem determination and resolution procedure processing.

(vi) "First Productive Use" shall mean the date on which live data at an End User site is first processed through the Software and used in the live operation of the End User's facility.

(vii) "Prospective End User" shall mean an SMS Client or prospective SMS Client to whom SMS is actively marketing the Software and any of the following SMS products (SMS may change any of these product names without implications to this Agreement): INVISION, UNITY, ALLEGRA, MedSeries4, SIGNATURE, products in the NOVIUS line (the "Core Applications"). "Actively marketing" shall mean that SMS has conducted (i) executive level meetings regarding the licensing of the Software and any Core Application at the subject site within the preceding six (6) months, and/or (ii) demonstrations of the Software and any Core Application at the subject site within the preceding six (6) months.

(viii) "Releases" shall mean a redistribution of the Software containing an aggregation of Updates and/or functional, operational and/or performance improvements

(ix) "Second-Level Support" shall mean the resolution of problems that are beyond the capabilities of the First-Level Support personnel, but do not require access to, or knowledge of, the source code. In addition to a more in-depth knowledge of the LanVision Software, individuals performing Second-Level Support must have extensive knowledge of the hardware platform, operating system, networking, database, imaging, workflow and other elements of the overall system implementation. Onsite visits may be required in the performance of Second-Level Support. Second-Level Support shall be available to SMS 24 hours per day.

(xi) "SMS Client" shall mean any party that enters into a license agreement with SMS that includes any Core Application.

(xii) "Software" shall mean the software (as described in Exhibit A) developed, marketed and licensed by LanVision to SMS hereunder.

(xiii) "Technical Materials" shall mean the items describing the technical functionality and specifications of the Software which are listed under the heading "Technical Materials" in Exhibit A.

(xiv) "Third-Level Support" shall mean the resolution of Software problems that require use of the Software source code, and the development of all Updates, Releases, and Versions. Third-Level Support shall be available to SMS between the hours of 8:00am to 5:00pm (EST).

(xv) "Update" shall mean packages of Software corrections as well as revisions addressing common functional and performance issues.

(xvi) "Versions" shall mean a delivery of new features packaged as part of existing and/or new Software.

(b) The parties desire to enter into a relationship in which SMS will market and sublicense the Software and Documentation to End Users and offer delivery, installation, and support services to End Users. LanVision will provide marketing, installation, programming, development, and support services to SMS, all as set forth hereunder.

2. EXECUTIVE TEAM. To oversee the parties' relationship under this Agreement, SMS and LanVision will create an Executive Team, comprising two senior managers from each organization. The Executive Team will meet at least quarterly and more frequently as required throughout the term of this Agreement and be responsible for monitoring the progress of the relationship, recommending and causing improvements to be implemented, and discussing mutual strategy as it relates to this Agreement. Among the responsibilities of the Executive Team is to work to avoid channel conflicts and to promptly and equitably resolve channel

conflicts that arise. In the event of a deadlock the Executive Team will submit to dispute resolution pursuant to Section 14.

3. INITIAL SOFTWARE CHANGES - PROJECT TEAM.

(a) LanVision will perform a set of Software programming changes ("Initial Software Changes") intended to:

[confidential

(b) The Initial Software Changes agreed to by the parties as of the date of this Agreement are listed and described in Exhibit B. To oversee the process of making the Initial Software Changes the parties will create a Project Team comprised of dedicated and knowledgeable technical personnel from each party. The Project Team will meet on a mutually agreed upon schedule, and shall remain in existence until at least one year after completion of the Initial Software Changes. Project Team leaders will also participate in Executive Team meetings and issue status reports to the Executive Team as required by the Executive Team. It is understood and agreed that all future Updates, Releases, Versions and programming changes delivered to SMS shall be compatible with the Initial Software Changes (e.g., new Versions will port with the same SMS software the same or better than earlier Versions port with SMS applications).

(c) SMS and LanVision recognize that further integration of the Software with SMS software will enhance the marketability of the Software to End Users. SMS and LanVision intend to pursue those future integration requirements, based upon the recommendations of the Project Team, throughout the term of this Agreement.

(d) The first [confidential] of programming services performed by LanVision on the creation of the [confidential] component of the Initial Software Changes shall be at LanVision's expense. For other programming services necessary to create the [confidential] component of the Initial Software Changes, SMS shall compensate LanVision at a rate of [confidential]. As to all other Initial Software Changes, each party shall bear its own expenses of performing its responsibilities under this Section.

4. SOFTWARE RIGHTS AND LICENSES.

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

(a) RIGHT TO MARKETING AND SUBLICENSE. LanVision grants to SMS and SMS' subsidiaries the exclusive worldwide right to (i) market the Software and Documentation to SMS Clients , and (ii) grant perpetual and term sublicenses of the object code version of the Software to SMS Clients. SMS' rights include the right to use the Software and Documentation as part of outsourcing services (facility management-type functions in which a Software license is separately acquired for each such customer) provided by SMS and to use the Technical Materials internally in support of such activities.

(b) SMS has the exclusive right to market and sublicense the Software to Prospective End Users. Upon LanVision's request, the Executive Team shall determine whether a particular opportunity that would otherwise be designated as a Prospective End User, and therefore exclusive to SMS, should be reserved for LanVision to pursue.

(c) SMS has the non-exclusive right to market and sublicense the Software to any entity that is not an SMS Client or a Prospective End User.

(d) Notwithstanding the exclusives granted to SMS in subsections (a) and (b) above:

(1) As to entities that license the Software directly from LanVision and later meet the definition of SMS Client or Prospective End User, LanVision shall have the right to license additional Software to such entities for use exclusively by such entities (e.g., a Software license granted by LanVision to a subsidiary hospital shall not entitle LanVision to license Software to that hospital's parent organization or to any affiliated hospital that is not a licensee under the LanVision-customer agreement).

(2) SMS shall have the non-exclusive right to market and license the Software to the entities listed in Exhibit G, which are entities to which LanVision represents it is actively marketing the Software, during the twelve (12) month period commencing on the date of this Agreement. If SMS licenses the Software to any such entity during that twelve (12) month period, SMS shall pay to LanVision a royalty equal to an amount to be determined by the Executive Team. After that initial twelve (12) month period, SMS shall be entitled to exclusive rights to market and sublicense the Software to such entities, and the royalties as stated in Section 12 shall apply to all such Software sublicences granted by SMS.

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

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(3) SMS shall have the right to sublicense the third-party software components of the Software listed in Exhibit C, Section 2 throughout the United States. SMS' right to sublicense on a world-wide basis the third-party software components of the Software listed in Exhibit C, Section 2, is conditioned on LanVision having or obtaining such rights from its third-party software suppliers for End Users located outside the United States. For any rights that LanVision does not have, LanVision shall diligently, and using all good faith efforts, promptly pursue such rights for SMS to sublicense all such third-party components on a world-wide basis, and LanVision shall provide written status reports on such progress to SMS monthly and otherwise as requested by SMS.

(4) In the event SMS markets and licenses a product (i) that includes features and functions substantially similar to those contained in the Software, and (ii) which a prospective licensee could reasonably be expected to license in lieu of the Software (collectively, the "Triggering Events"), then LanVision shall have the right, upon [confidential] prior written notice to SMS received by SMS within [confidential] after LanVision has actual notice of a Triggering Event, to terminate this Agreement. If multiple Triggering Events occur, the last--occurring Triggering Event shall be the basis for measuring such [confidential] requirements. This right to early termination is contingent on (x) SMS' right to a migration-out period that entitles SMS to execute Software licenses with Prospective End Users during the [confidential] period commencing on the effective date of termination, and (y) LanVision shall provide support subject to the provisions of Section 8(b)(ii).

(5) SMS' rights to market and sublicense the modules denoted "Other Modules" in Exhibit A, Section 1, shall be non-exclusive.

(e) INTERNAL USE LICENSE. LanVision grants to SMS and SMS' subsidiaries a royalty-free license for the internal use of the Deliverables by SMS and its subsidiaries solely for purposes of enabling them, if elected by SMS, to create, market, and license interface and integration programming; and to provide support services to End Users.

(f) SMS shall not decompile or otherwise reverse engineer or decode the Software; provided that in the event SMS receives delivery of the Software source code from escrow, SMS shall have the right to use such source code to perform programming changes and other development activities so long as LanVision's intellectual property rights are protected.

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

CONFIDENTIAL

(g) OTHER LANVISION PRODUCTS.

(i) For purposes of avoiding channel conflicts and confusion in the SMS Client/Prospective End User base, LanVision shall not directly or indirectly market or license any LanVision product existing as of the date of this Agreement, whether or not listed in Exhibit A (except MicroVision), to any SMS Client or Prospective End User. SMS shall have the non-exclusive right to market or license any existing LanVision product not listed in Exhibit A under the terms and conditions of this agreement. The Executive Team will determine the Initial Base Fee for any existing LanVision product not listed in Exhibit A.

(ii) SMS shall have the first opportunity to negotiate with LanVision for the right to market and license any new LanVision products. Notwithstanding the foregoing, LanVision shall have the right to market and license the Other Modules described in Exhibit A, Section 1, in connection with new products.

(h) It is understood and agreed that in the event an End User, without SMS' knowledge and consent, exceeds its licensed number of users/servers, SMS shall use all reasonable efforts to enforce the End User license agreement. Provided SMS performs its responsibilities under this subsection, LanVision shall not treat such excess use as a license or other violation of LanVision's intellectual property rights.

5. SMS RIGHTS AND RESPONSIBILITIES.

(a) SMS shall market and sublicense the Software and Documentation to prospective End Users within the markets defined in Section 4. SMS' marketing efforts will be commensurate with market demand for the Software. SMS' marketing efforts outside the United States are also conditioned on the availability of localized versions of the Software. License agreements with End Users shall conform to the requirements as stated in Exhibit E.

(b) SMS will incorporate appropriate information about the Software and Documentation with LanVision's assistance in SMS' software documentation, will identify the Software and Documentation as being proprietary to LanVision, and will include all proprietary markings required by LanVision as shown in Exhibit A, Section 3.

(c) SMS may, but is not required to, offer the Software and Documentation for sublicense on a private label basis, i.e., SMS may sublicense the Software under one or more trade names to be selected by SMS. In no event shall LanVision market the Software under the mark chosen by SMS without SMS' prior knowledge and consent in order to avoid duplication of efforts and confusion in the SMS customer and prospect basis. [confidential]

(d) SMS shall have the right to use, modify, and/or distribute LanVision's marketing materials and Documentation related to the Software as deemed appropriate by SMS. SMS is responsible for the creation and delivery of marketing materials to prospective End Users, including adaptation of LanVision materials, associated with any private labeled Software and/or Documentation offered for sublicense.

(e) SMS will receive training from LanVision at no charge, to enable SMS to provide Software installation and support services and marketing and sales support as described in Section 6. SMS may employ a "train the trainer" approach, whereby LanVision will train and provide periodic update or refresher training to a core group of SMS personnel identified by SMS such that they will then be able to train other SMS personnel. If SMS requests that training occur at other than LanVision's facilities, SMS shall reimburse LanVision for reasonable travel and living expenses in accordance with SMS' then-current travel and living reimbursement policy. SMS' current travel and living policy is attached as Exhibit J.

(f) SMS will offer to contract with End Users for the provision of installation, interface, integration, and/or support services, as appropriate.

(g) SMS will perform the tasks assigned to SMS relating to the Initial Software Changes listed in Exhibit B.

(h) SMS will be prepared to receive support services from LanVision as contemplated in Section 8. SMS will install appropriate Software Updates, Releases, Versions, and programming changes that are provided to SMS by LanVision.

(i) [confidential]

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

CONFIDENTIAL

6. LANVISION RIGHTS AND RESPONSIBILITIES.

(a) LanVision agrees to diligently perform research and development throughout the term of this Agreement to enhance and otherwise improve the Deliverables. Such research and development shall include, without limitation, (i) Software improvements that enable the Software to remain competitive with other products available to prospective End Users, and (ii) the delivery to SMS of Updates, Releases and/or Versions to ensure the compatibility of the Software with third-party vendor components of the Software, such compatibility to occur within [confidential] after the general availability of such component from the third-party vendor if that timeframe and such compatibility are commercially feasible; provided SMS shall receive such enhancement no later than LanVision delivers such capability to any other entity. Except to the extent SMS' participation will cause undue delay to LanVision's development process, or involves matters that are proprietary to LanVision and are unrelated to this Agreement, SMS shall have the right to participate on LanVision committees and teams that perform research, development, and product planning for LanVision, and SMS shall have the right to participate, if elected by SMS, as Beta sites for any LanVision products that proceed to Beta testing.

(b) LanVision agrees to perform the tasks assigned to LanVision relating to the Initial Software Changes listed in Exhibit B, and to use all reasonable efforts to perform these tasks according to the timetable set forth in Exhibit B, unless otherwise agreed by the Executive Team. Consequences of late or non-performance are specified in Exhibit B.

(c) At rates to be negotiated by the parties at the time, LanVision agrees to perform, in a mutually agreeable timeframe, technically-feasible Software programming changes requested by SMS.

(d) LanVision agrees to provide training services to SMS to enable SMS personnel to (i) provide Software support services directly to End Users, and (ii) train SMS trainers to teach Software support services to SMS employees. By way of example, such training will include installing Software programming and stream of enhancement changes, and will include a `train-the-trainer' approach. Such training shall, entitle SMS personnel, at no charge to SMS, to attend [confidential] of regularly-scheduled LanVision training classes as selected by SMS (e.g., [confidential]). In connection with the creation of any new Version or net new product available under this Agreement, LanVision shall provide an additional [confidential] of Software support training to SMS in the calendar quarter the Version or new product is delivered to SMS.

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

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Additional training requested by SMS shall be provided by LanVision at its then-current, published training rates.

(e) LanVision will provide support services to SMS as described in Section 8 in consideration of SMS paying to LanVision the support fees described in Section 12(d).

(f) LanVision agrees to make available to SMS [confidential] LanVision employees with technical and marketing expertise who shall train SMS personnel to (i) perform marketing and sales support, and (ii) train SMS trainers to teach marketing and sales support to SMS employees. Such LanVision personnel shall also provide demonstrations and marketing presentations, and provide other Software marketing assistance to SMS, such as onsite pre-sale assessments, as reasonably requested by SMS and at places to be designated by SMS. Such LanVision personnel shall be provided at no charge to SMS. SMS will reimburse LanVision for reasonable travel and living expenses incurred by LanVision in the course of providing this marketing and sales support. In connection with the creation of any new Version available under this Agreement, LanVision shall provide an additional [confidential] of marketing and sales support training to SMS in the calendar quarter the Version or new product is delivered to SMS. Additional training requested by SMS shall be provided by LanVision at its then-current, published training rates.

(g) LanVision will identify in Exhibit A any distinguishing marks or proprietary notices that must accompany the Software and Documentation when distributed to End Users.

(h) LanVision will provide to SMS source Documentation material in machine-readable form such that SMS may adapt and include the Documentation in SMS' softcopy library (for CD-ROM distribution to End Users), the specific formats of such materials to be specified by SMS.

(i) LanVision will participate in SMS user group meetings as reasonably requested by SMS for purposes of receiving input into LanVision's development plans.

7. DELIVERY OF SOFTWARE AND DELIVERABLES. Within [confidential] after SMS' request, LanVision will deliver to SMS the object code version of the Software existing as of the date of this Agreement. Thereafter, LanVision will promptly deliver to SMS all Software Updates, Releases,

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

Versions, and Software programming changes, along with updates or revisions to Technical Materials and Documentation as they are developed.

8. SUPPORT.

(a) LANVISION SUPPORT SERVICES. Attached as Exhibit D is a standard SMS End User support agreement. As between SMS and LanVision, LanVision shall perform for SMS all Third-Level Support support services assigned in that document to SMS, and shall otherwise perform in a manner that enables SMS to comply with End User support obligations, as such are stated in Exhibit D; except that (i) LanVision shall have no responsibility for providing First-Level Support obligations undertaken by SMS in subsection (b) below, and (ii) LanVision's support obligations under this Agreement shall only apply to the current Version of the Software, and the preceding Version of the Software (e.g., LanVision agrees to support the current Version and Version-minus-one; earlier Versions will be supported by LanVision, as requested by SMS, at LanVision's professional service rates). In addition to the above, LanVision shall perform Second-Level Support as requested by SMS in consideration of SMS paying Second-Level Support fees as described in Section 12(d).

(b) END USER SUPPORT.

(i) SMS will offer to provide all levels of support directly to End Users, including First-Level Support. LanVision shall have no obligation to provide First-Level Support directly to End Users. Notwithstanding anything to the contrary, SMS shall have the right to perform, or cause to be performed, any End User support necessary to cause the Software to perform as warranted by LanVision.

(ii) The parties agree that continuation of End User support after the expiration or termination of this Agreement is very important. Therefore, SMS shall have the right to continue providing support services to End Users after the expiration or termination of this Agreement, and LanVision will continue to provide support services to SMS for the remainder of the then-current term of each End User's support agreement with SMS, at LanVision's then prevailing support rate, less a [confidential] discount if this Agreement is terminated due to LanVision's breach. If the Agreement is terminated due to SMS' breach, LanVision shall provide support services to SMS at LanVision's then-prevailing support rate. If SMS is unable or does not elect to provide support services to End Users, LanVision agrees to offer support services to affected End Users subject to LanVision's then current, generally applicable support terms and fees.

(c) LanVision shall not be responsible for Software problems or errors to the extent those problems or errors are the result of (i) modifications or other Software programming changes made by SMS, (ii) SMS' or End Users' failure to use correct operating procedures, or (iii) error or malfunction in the equipment or other software (other than the third-party software listed in Exhibit C) with which the Software is used. If SMS requests services that LanVision believes are not LanVision's responsibility for the reasons stated in this subsection, as soon as LanVision is made aware of this fact LanVision shall so advise SMS in writing, including a statement of LanVision's charges to perform such services. SMS shall pay LanVision on a time and materials basis at LanVision's then-current rates for any support services rendered regarding problems or errors for which LanVision is not responsible.

9. CONFIDENTIALITY.

(a) Each party shall retain in strict confidence the confidential information of the other party. Examples of confidential information include, without limitation, trade secrets, software, the Deliverables, specifications, designs, development plans, business plans, sales projections, business records, prices, the business terms of this Agreement, and customer lists. Confidential information of a party shall only be used by the other party in the course of performing its responsibilities under this Agreement, and will be disseminated only on a need-to-know basis among its employees and agents that have executed an appropriate confidentiality agreement

(b) The obligations of confidentiality set forth in this Section shall not apply to information (i) disclosed to the extent required by a court of law or federal, state or local statutes or regulations; (ii) independently developed by the party receiving the information; (iii) acquired by a party from a third-party not subject to such obligations, unless that party knew or should have known that the information being revealed is confidential as described in this Agreement; or (iv) which is or becomes part of the public domain through no breach of this Agreement by the revealing party.

(c) The obligations under this Section 9 shall survive termination of this Agreement. Each party acknowledges that a breach of its obligations under this Section 9 may cause irreparable harm to the other party for which monetary damages may be inadequate. Each party will be entitled to seek injunctive relief for any such breaches, threatened or actual.

10. WARRANTIES.

(a) LanVision warrants that the Software will operate materially in accordance with its Documentation, and that the equipment configuration in Exhibit C is sufficient to operate the Software. LanVision shall promptly repair or replace non-conforming Software so that it performs in accordance with its Documentation at no cost to SMS or End Users. Except to the extent otherwise expressly indicated in Exhibit A, LanVision warrants that all Software is presently generally available for license and support from LanVision. Due to the nature of computer software programs, the Software may not be entirely error free; however, this fact shall not relieve LanVision of any obligation under this Agreement.

(b) LanVision warrants that the Documentation and Technical Materials provided by LanVision to SMS will be accurate and complete to the best of LanVision's knowledge.

(c) Each party warrants that the services it provides under this Agreement will be provided in a timely, competent, and workmanlike manner.

(d) LanVision warrants that it owns or otherwise has the right to grant the licenses and rights set forth in this Agreement. Additionally, LanVision warrants that neither SMS nor any End User will be required to obtain any third-party software in order to operate the Software, except for the items designated "End User to License" in Exhibit C.

(e) LanVision warrants that it has not placed, nor is LanVision aware of, any disabling code in the Software which would alter, destroy, or inhibit the Software or SMS or any End User's use of the Software or the data contained therein.

(f) LanVision warrants that it will not terminate or attempt to terminate, by modem or by electronic means or by other means, use of the Software by SMS or an End-User in connection with any dispute; provided, however, that LanVision does not waive its right to seek an injunction to terminate use of the Software in connection with any material dispute with SMS hereunder, which dispute shall remain unresolved after the parties' good faith efforts and all contractually-obligated efforts to resolve such dispute.

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(g) LanVision warrants that the Software will be Year 2000 compliant by January 1, 1999, i.e., that the Software will process dates including the year 2000 and beyond in accordance with the Software Documentation.

(h) LanVision warrants that SMS shall at all times during the term of this Agreement be entitled to rely on the warranties stated in this Section, and any additional or other warranties that LanVision makes generally available to its customers [confidential]

(i) THE WARRANTIES SET FORTH ABOVE ARE IN LIEU OF ALL OTHERS INCLUDING WITHOUT LIMITATION THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

11. INTELLECTUAL PROPERTY INDEMNIFICATION. At LanVision's expense as described herein, LanVision shall indemnify, defend and hold SMS harmless from and against any claim that any of the Software and/or Documentation infringes a patent, copyright, trademark, or other intellectual property right by defending against such claim and paying all amounts that a court finally awards or that LanVision agrees to in settlement of such claim. LanVision shall also reimburse SMS for all reasonable expenses incurred by SMS at LanVision's request. To qualify for such defense, SMS must (i) provide prompt notice of all claims to LanVision, (ii) allow LanVision to control the defense of the matter, and (iii) cooperate with LanVision in the defense of the matter.

12. PAYMENTS AND EXPENSES. SMS shall pay LanVision the following fees:

(a) Sublicense fees - For each sublicense of the Software granted by SMS to an End User, SMS shall pay to LanVision the associated royalty fees as indicated in Exhibit H. Software sublicenses may be granted by SMS on a term or perpetual basis.

(i) Perpetual Basis. Royalty fees due LanVision for Software sublicenses granted by SMS on a perpetual basis shall be due and payable to LanVision within [confidential], as follows:

Note: Portions marked "[confidential]" have been omitted for reasons of confidentiality and have been filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2.

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- [confidential] upon execution by SMS of an End User license agreement which includes the Software;

- [confidential] upon delivery of the Software to an End User (i.e., the date on which Software implementation activities commence).

SMS will provide LanVision with a quarterly royalty report which identifies the End User's name, contract date, whether contract is term or perpetual, and the appropriate royalties owed. The royalty report will sent to LanVision within 30 days after the end of the calendar quarter in which the milestone occurs.

(ii) Term Basis. Royalty fees due LanVision for Software sublicenses granted by SMS on a term basis shall equal the royalty fee that would have been due LanVision pursuant to subsection (i) above, in installments with each installment being equal to the perpetual license royalty fee divided by the number of months in the SMS-End User contract, plus interest calculated at [confidential]. Term license fees shall be due and payable to LanVision [confidential] over the term of the End User's contract. The first payment will be prorated and will be due [confidential]. SMS reserves the right to pay royalty fees due LanVision for Software sublicenses granted by SMS on a term basis using the Perpetual payment basis described in subsection (i) above (without interest),

(b) [confidential].

(c) Commission fees - If an SMS customer elects to license the Software directly from LanVision and SMS provides written approval on such sale, SMS shall earn a commission from LanVision. For each such license, LanVision shall pay SMS a commission equal to [confidential].. The commission will be due and payable to SMS within [confidential].

(d) Support - In consideration of LanVision providing Third-Level Software Support as described in Section 8, SMS will pay LanVision, per End User being supported by SMS, an annual support fee equal to [confidential]. SMS' right to sublicense Versions made generally-available by LanVision after the date of this Agreement is contingent on SMS paying royalties to LanVision pursuant to Exhibit H. SMS has the right to purchase Second-Level Support for all then-existing End Users. In consideration of LanVision performing Second-Level Support

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pursuant to Section 8(a), SMS shall pay to LanVision, an annualized support fee equal to [confidential]. SMS shall provide written notice of such election to LanVision, which notice shall include the duration of time that SMS desires to obtain Second-Level Support (one-year minimum per End User). As to each End User, these fees will commence on [confidential] following delivery of the Software to that End User, and will be reported and paid [confidential].

(e) Implementation Services - SMS has the right to purchase implementation services from LanVision for specific End Users at the rates published in Exhibit I. LanVision shall perform such services as SMS' subcontractor pursuant to the provisions of Exhibit F.

(f) MISCELLANEOUS EXPENSES AND COSTS. Except as otherwise expressly provided, each party shall bear its own expenses and costs of performing under this Agreement. If SMS agrees to reimburse LanVision for any expenses, LanVision must submit correct invoices to SMS within 60 days after the expense is incurred to qualify for payment.

(g) PAYMENT TERMS. Amounts to be paid by SMS to LanVision shall be payable on the date or event specified in this Agreement, or if not specified, thirty (30) days after receipt of a correct invoice from LanVision. Subject to subsection (h) below, SMS shall pay a monthly service charge prorated at 1.5% on all amounts not paid within thirty (30) days after receipt by SMS of a correct invoice. All payments shall be in U.S. dollars.

(h) RIGHT TO WITHHOLD OR SET-OFF. Notwithstanding anything to the contrary, in the event of a good faith dispute regarding services rendered, Software performance, late delivery, or any other matter regarding LanVision's performance under this Agreement, SMS shall have the right to withhold or set-off--as determined by SMS--amounts claimed due by LanVision pending resolution of the dispute. SMS shall pay undisputed amounts in a timely manner, and LanVision shall not declare SMS in default for withholding or setting-off monies claimed due by LanVision, provided SMS pays undisputed amounts in a timely manner and SMS cooperates with LanVision to promptly resolve the dispute

(i) TAXES. SMS shall be responsible for the payment (directly or by reimbursement of LanVision) of all taxes imposed on LanVision or SMS and resulting from this Agreement or any performance under this Agreement, excluding taxes based on LanVision's income, and employment taxes and unemployment insurance relating to LanVision's employees. If SMS

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provides LanVision with a copy of its tax exemption letter or number, LanVision shall not bill SMS for taxes to which the exemption applies.

(j) THIRD-PARTY COMPONENTS. All Third-party Components identified in Exhibit C as embedded shall be offered to SMS at no additional fee. All Third-party Components identified in Exhibit C as non-embedded shall be offered to SMS at fees [confidential]. That document is incorporated herein by reference.

(k) SERVICE FEE INCREASES. All service hourly rates in this Agreement shall be subject to increase annually by a percentage equal to [confidential].

13. FORCE MAJEURE. Neither party shall be responsible for any delay or failure of performance resulting from causes beyond its control and without its fault or negligence.

14. DISPUTE RESOLUTION. In the event that a dispute arises between SMS and LanVision which cannot be resolved in the normal course, the following dispute resolution procedures shall be followed:

(a) Within ten (10) business days of a written request by either party, the parties' respective Project Team Leaders shall meet to resolve the issue; if these parties cannot resolve the issue within ten (10) business days of the meeting, then (ii)) the issue shall be submitted to LanVision's President and SMS' Vice President, Purchasing, and the parties' respective Executive Team members.

(b) This dispute resolution process may occur concurrently with the exercise of other rights and remedies available under this Agreement. This provision shall not apply to claims for equitable relief (e.g., injunction to prevent disclosure of confidential information).

15. MEDIATION. Any controversy or claim arising out of or relating in any way to this Agreement, or the breach thereof, which has not been resolved pursuant to the Dispute Resolution Procedure set forth in Section 14 may be settled by non-binding mediation. Such mediation shall be conducted under the auspices of the American Arbitration Association ("AAA"), and shall be governed by the AAA's Commercial Mediation Rules (except to the extent that such rules are modified by this Section). The parties further agree as follows:

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(a) that once either party has submitted a written request for mediation to the AAA, the parties shall choose a Mediator from a list provided by the AAA of individuals knowledgeable and experienced in the area of computer information systems that are designed for processing healthcare data. Within ten days of receipt of such a list, each party shall notify the AAA which individuals listed are acceptable as mediators. The Mediator shall be chosen by the AAA from the listed individuals which both parties found acceptable. If the parties are unable to choose a mutually acceptable Mediator in this manner, the AAA shall then promptly choose the Mediator.

(b) the Mediation must include all parties and claims involving common questions of fact or law whose presence is required to resolve the dispute.

(c) the Mediator shall be instructed to conduct the proceedings and render a recommendation in the shortest reasonable time;

(d) this Mediation provision shall not apply to any claim for equitable relief (e.g. an injunction to stop copyright infringement) which any party has relating to this Agreement.

(e) if the parties so agree, they may exchange with each other memoranda submitted to the Mediator setting forth their respective positions with regard to the issues that need to be resolved.

(f) the Mediator may retain an expert or consultant only with the express agreement of the parties upon terms, conditions and fees agreed upon by the parties.

(g) that information and documents not otherwise in the public domain that are used at or in connection with the mediation shall not be disclosed to third parties by the Mediator or the parties without the prior written consent of both parties. Neither the fact that the mediation occurred nor the result of the mediation shall be admissible in evidence in a subsequent proceeding brought on the same claims that were presented at the mediation. This Section shall survive termination of the Agreement.

16. DEFAULT.

(a) If either party fails to observe or perform any material obligation under this Agreement, the non-defaulting party may give written notice of breach specifying the material default. This Agreement may be terminated by the non-defaulting party thirty (30) days after the date of such notice unless (i) the material failure is corrected within such thirty (30) day period; or (ii) if it is not possible to correct within such thirty (30) days, the defaulting party commences correction within thirty (30) days and proceeds diligently to a cure.

(b) The right of the non-defaulting party to terminate this Agreement under this Section is in addition to all other rights as are available to it at law or equity under this Agreement.

(c) Termination of this Agreement for any reason shall have no effect on sublicenses previously granted to End Users. Each party shall return to the other, at its own expense, all proprietary information of the other party then in its possession or control, except as required by a party to provide continuing support services as described in Section 8.

17. LIABILITY.

(a) LIMITATION OF LIABILITY. LanVision's total liability to SMS under this Agreement shall be limited to [confidential]. Neither party shall be liable to the other for consequential damages. Any sums paid under Sections 11 or 17(b) or damages resulting from violations of Section 9 shall not be subject to the limits of this Section.

(b) THIRD-PARTY INDEMNITY. LanVision shall indemnify, defend, and hold harmless SMS against any third-party claim that the Software fails to meet the warranties in Section 10 by defending such claims and paying damages that a court finally awards or that LanVision agrees to in settlement. To qualify for such defense, SMS must (i) provide prompt notice of all claims to LanVision, (ii) allow LanVision to control the defense of the matter, and (iii) cooperate with LanVision in the defense of the matter.

18. RIGHT TO AUDIT. During the term of this Agreement SMS and LanVision shall maintain complete and correct financial, business, and product development records required to verify compliance with this Agreement. At any time during the term of this Agreement and for a period of twelve (12) months thereafter, each party shall have the right to inspect and audit the relevant portions of the other's financial, business, and product development records to verify compliance. Such audits shall take place during normal business hours upon reasonable advance written notice to the other party. Upon a party's request, the other party shall perform an audit to verify

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its compliance with this Agreement and deliver the audit report and supporting documentation to the requesting party.

19. SOFTWARE OWNERSHIP. LanVision shall own or otherwise have rights in the Software and all Software programming changes made by LanVision or SMS; provided that as to any Software programming changes made by SMS as permitted under the terms of this Agreement ("SMS-Programmed Software"), (i) SMS shall be entitled to market and sublicense such SMS-Programmed Software without paying royalties to LanVision, until SMS' costs of developing such items are recouped, and LanVision shall pay to SMS a commission equal to 100% of all revenues received by LanVision from the license of SMS-Programmed Software, until SMS' costs of developing such items are recouped, (ii) and the Executive Team shall determine what adjustment, if any, is required to the Base Fee in consideration of future licenses of the SMS-Programmed Software, pursuant to the Base Fee adjustment provisions in Exhibit H. Notwithstanding LanVision's ownership of the SMS-Programmed Software, LanVision shall not allow access, use or sublicense rights in the SMS-Programmed Software to any reseller, remarketer, value added reseller or other non-end user business partner of LanVision without the prior written consent of an SMS corporate officer.

20. TERM. The term of this Agreement shall commence on the date first written above and continue for a period of sixty (60) consecutive months. Thereafter, this Agreement shall automatically renew for successive twelve (12) month periods unless a party provides to the other written notice of non-renewal at least [confidential] prior to the end of the then-current term.

21. SITE VISITS. Subject to the agreement of affected Software licensee, each party agrees to share site visit information with the other and to promote the availability of their customers to host site visits.

22. SOFTWARE ESCROW.

(a) Source code for the Software, including all associated technical documentation and source code cross reference materials, shall be placed into escrow pursuant to the provisions of a source code escrow agreement, to be agreed upon by the parties within thirty (30) days after the date of this Agreement, that includes source code release provisions as described in subsections (i)-

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(iv) below. (the "Escrow Agreement"). The source code shall be released to SMS by the escrow agent in the event any of the following events occur:

(a) Source code for the Software, including all associated technical documentation and source code cross reference materials, shall be placed into escrow pursuant to the provisions of a source code escrow agreement, to be agreed upon by the parties within thirty (30) days after the date of this Agreement, that includes source code release provisions as described in subsections (i)-(iv) below. (the "Escrow Agreement"). The source code shall be released to SMS by the escrow agent in the event any of the following events occur:

(i) LanVision ceases to conduct business through liquidation or forced dissolutionment, voluntary or involuntary liquidation under the United States Bankruptcy Code.

(ii) LanVision has committed an act of default under this Agreement and fails to cure the default within thirty (30) days after written notice from SMS; provided access to the source code is required to cure the underlying default. Without limitation, such default includes LanVision's failure to provide software support.

(iii) LanVision refuses or fails to perform programming changes that LanVision agreed to perform and which were requested by SMS pursuant to Section 6(c), and such programming changes are required to meet the needs as stated by End Users.

(iv) LanVision licenses Software source code to any other reseller, remarketer, VAR, or other channel partner, or to any customer; excluding the extraordinary licensing of Software source code to an individual customer outside the ordinary course of business. Such source code shall be released to SMS under similar terms and conditions.

(b) Software source code obtained by SMS under this Section shall be returned to LanVision when all of SMS' rights to the Software terminate. All such source code shall be treated by SMS as LanVision confidential information as provided in Section 9. SMS' rights to use source code shall be to accomplish the license, delivery, installation, support, development, and modification of Software to meet the needs of SMS' customers.

23. MISCELLANEOUS.

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(a) This Agreement constitutes the entire agreement of SMS and LanVision with respect to the subject matter hereof and supersedes all other prior and contemporary agreements and understandings. No provision of this Agreement may be terminated, modified or waived unless such termination, modification, or waiver is set forth in writing executed by authorized representatives of SMS and LanVision.

(b) This Agreement shall not be assigned by either party without the prior written consent of the other, except to a parent or subsidiary, or a subsidiary of its parent, or to a successor by purchase, merger, or consolidation; provided that neither party may assign this Agreement to a Competitor (defined below) of the other. For purposes of this Agreement, a Competitor shall mean any entity, including its parents, subsidiaries, and divisions, or partnerships and joint ventures, that derives at least fifty percent (50%) of its gross revenues from hardware, software, and/or services that that compete with those of the assigning party. Competitor shall not include a parent, subsidiary, or division of a Competitor, or any partnerships and joint ventures; provided that the entity comprising the Competitor has no right to access, use, license, market, remarket, or support the non-assigning party's proprietary information. No assignment shall relieve the assignee of its obligations under this Agreement. Any assignment not in accordance with these provisions shall be null and void and shall be deemed a material breach of this Agreement.

(c) [confidential]

(d) SMS and LanVision are independent contractors, are not related and shall not be construed and shall not hold themselves out to be co-employers, joint venturers, partners or otherwise.

(e) SMS and LanVision agree not to hire or attempt to hire each other's employees during the term of this Agreement or any extensions thereof without the prior written consent of the other party.

(f) All materials developed by SMS and/or LanVision for marketing, distribution and promotion of the relationship with the other party, or which otherwise mentions or refers to the other party, must first be approved in writing by the other party, which approval shall not be unreasonably withheld. Materials sent to SMS shall be addressed to "Marketing Communications, Mail Code H07". Review of materials by both parties will occur in a timely

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manner. Approval shall be deemed to occur if the sending party does not receive written notice of objection within fifteen (15) days after receipt of the marketing materials by the other party.

(g) Upon SMS' request, LanVision shall provide SMS with certificates of insurance evidencing that its employees are covered by: (i) General Liability insurance with a minimum limit of $1 million combined single limit bodily injury and property damage; (ii) Professional Liability insurance (Errors and Omissions) with limits not less than $1 million aggregate for all claims each policy year for computer programming and data processing services as required by this Agreement; and (iii) Worker's Compensation insurance in the state in which each LanVision employee is employed. Except as to the two (2) FTEs described in Section 6(f), LanVision agrees that none of its employees shall individually perform more than an aggregate of 1,500 hours of services under this Agreement during any consecutive twelve month period.

(h) SMS is an Equal Employment Opportunity and Affirmative Action (EEO/AA) employer and adheres to Executive Order 11246 and its accompanying regulations. SMS' EEO/AA commitments extend to its hiring and staffing practices and all conditions of employment, including, working conditions, benefits and privileges of employment, compensation, training, promotions, transfers, and termination of employment (including layoffs and recalls) for all employees. This policy is carried out without regard to race, color, religion, national origin, sex, age, veteran status, disability, or any other condition which is deemed to be unlawfully discriminatory under applicable state or federal law.

(i) SMS acknowledges that the laws and regulations of the United States restrict the export and re-export of commodities and technical data of United States origin. SMS agrees that it will not export or re-export the Software in any form, without appropriate United States and foreign governmental licenses, if any. In exercising its rights and performing its obligations under this Agreement, SMS will comply with all applicable international, national, and local laws and regulations. SMS agrees that its obligations pursuant to this Section shall survive and continue after any termination or expiration of rights under this Agreement.

(j) All notices shall be deemed received on the date of receipt and shall be delivered by overnight express or facsimile (with confirmation sent via U.S. mail by the next business day) as follows:

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If to SMS:	If to LanVision:
Chief Financial Officer Shared Medical Systems Corp. 51 Valley Stream Parkway Malvern, PA 19355 FAX: 610-219-3124	Chief Operating Officer LanVision, Inc. One Financial Way, Suite 400 Cincinnati, OH 45242 FAX: 513-794-7272
	with a copy to:
	General Counsel, LanVision, Inc., at the same address/fax.

IN WITNESS WHEREOF, and intending to be legally bound, SMS and LanVision have executed this Agreement as of the day and year first written above.

Executed on behalf of SHARED MEDICAL SYSTEMS CORPORATION	Executed on behalf of LANVISION SYSTEMS, INC.
By: /s/ Maynard Honesty Name: Maynard Honesty Title: VP, Purchasing	By: /s/ J. Brian Patsy Name: J. Brian Patsy Title: President & CEO
	LANVISION, INC. By: /s/ J. Brian Patsy Name: J. Brian Patsy Title: President & CEO

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Exhibit A

Deliverables

1. The Deliverables existing on the date of this Agreement are as follows:

(a) SOFTWARE. The Software shall be defined as the modules listed below, the Initial Software Changes, Documentation, and installation manual, all as described in the Technical Materials and Documentation existing as of the date of this Agreement, and regardless of product name. Also included are all Software programming changes, Updates, Releases, Versions, streams of enhancement, and developed by or on behalf of LanVision, regardless of the product name, and updates to the Documentation..

Modules include:

ChartVision Version 3.xx
ChartVision Version 4.xx*
OnLine Chart Completion (OCC)
Correspondence
WebView**
Other Modules
ScanHi
ScanLo
BarCode
Cache
Print/FAX
Document Capture System***

*[confidential]
**[confidential]
***[confidential]

(b) TECHNICAL MATERIALS.

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- Functional Specifications
- Data flow diagrams
- File layouts

(c) DOCUMENTATION.

User Manuals for:

ChartVision
OnLine Chart Completion (OCC)
Correspondence
WebView
Other Modules
  ScanHi
  ScanLo
  BarCode
  Cache
  Print/FAX
  Document Capture System

LanVision will also provide its then-current Software implementation and training manuals to SMS.

2. The following trademark, servicemark, or other proprietary notices shall be displayed, in the following form and manner, in documentation for SMS products that include the Software:

(C) 199X LANVISION, INC.

ALL RIGHTS RESERVED

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Exhibit B

Initial Software Changes

Description
----

1. Modify the modules of the Software as appropriate to

[confidential

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Exhibit C

Configuration

The following configuration (including the third-party software listed below) is required to operate the Software as of the date of this Agreement. LanVision shall promptly update this Exhibit as required to reflect the addition of new items of Software and new Software programming changes, Releases and Versions.

1. End User to License
[confidential]

2. LanVision shall provide hardware configurations upon SMS' request.

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Exhibit D

SMS Support Program

SMS will provide a program of support for the SMS Applications and Custom Programming listed in the Supplements under the following terms and conditions. This Support Program shall become effective on the date of this Agreement and shall remain in force throughout the applicable Warranty Period for each Application and item of Custom Programming, and thereafter during the term of support for same as specified in its Supplement.

1. SMS SUPPORT RESPONSIBILITIES. SMS shall have the following support responsibilities:

1.1 Correct, at no additional charge, failure of the Applications and SMS' Architectural Software (if any) to perform substantially in accordance with the Documentation. Correct, at no additional charge, failure of items of Custom Programming, for which Customer is paying for support, to perform substantially in accordance with its Specification. Time spent on warranty and non-warranty support activities will be calculated in minimum time increments of one-half (1/2) hour.

1.2 Provide Customer for eighteen (18) months from the date of this Agreement with a monthly allowance of eight (8) hours of remote non-warranty telephone support at no additional charge. The monthly allowance may be used for assistance and advice on the operation and functions of the Applications, for help with diagnostics and other problem determination procedures, and for advice and assistance in problem situations. Any unused portion of this monthly allowance cannot be carried forward to subsequent months. After the initial eighteen (18) months Customer's non-warranty support usage and monthly allowance will be reviewed as part of the annual review, outlined in subsection 1.6 of this Exhibit.

1.3 Initiate work on urgent issues within one hour of Customer's request for assistance to the Customer Support Center ("CSC"), 24 hours per day and 7 days per week. Generally, urgent issues would be those involving substantial Application failure or those which, in Customer's reasonable judgment, are critical to Customer's overall operation. SMS will initiate work on non-urgent issues, including the correction of non-urgent software problems, during

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Customer's normal business hours from SMS' Corporate offices or the local SMS office, either on a remote basis or on-site, as is most effective and efficient.

1.4 Provide a record in SMS' events tracking system ("EVTS") of requests received at the CSC from an employee or other representative of Customer including a description of the request, the time spent and the actions performed in satisfying the request, and the resolution of the request. When made available by SMS, Customer may, at its option, access this information to review the support effort being performed at Customer's request and the status of work in process. Prior to availability, SMS shall make available to Customer information on such access capability.

1.5 For Applications and Architectural Software provided via remote computing services and/or on a term licensed basis under this Agreement, SMS shall provide periodic Updates, Releases and Versions (if applicable) to the standard SMS Application and Architectural Software functions and Documentation of these items at no additional charge. For Applications and Architectural Software provided under a perpetual license under this Agreement, SMS shall provide periodic Updates and Releases to the standard Application and Architectural Software functions and Documentation of these items at no additional software charge. New Versions (if applicable) of previously-delivered perpetual-licensed Application and Architectural Software will be charged at SMS' then-current rates for those Applications and Architectural Software receiving standard support services; and for no additional software charge for those Applications and Architectural Software indicated in a Supplement as receiving extended support services.

1.6 Meet annually with Customer's management staff to: (i) jointly develop an annual support schedule, (ii) evaluate support performance, and (iii) review Customer's utilization of the System . The annual support schedule will state which support services will be provided at no additional charge and which will be provided for an additional fee.

1.7 Provide Customer with all generally applicable federally-mandated regulatory changes and state-mandated billing changes. Federally-mandated programming changes to the payroll and accounts payable Applications and to the case mix groupers/schemes will be provided at no additional charge. SMS' charges, if any, for other generally applicable federally-mandated programming changes or state-mandated billing changes are contingent on the scope of such changes and are set on a multi-customer/fair-share basis for programming. Changes will be provided to Customer when made generally available to SMS' customers.

1.8 Provide Customer with an allowance of thirty-two (32) hours of local SMS education during the first twelve (12) months of the term. Thereafter, the annual education allowance will continue to be thirty-two (32) hours or as otherwise mutually agreed in the annual support schedule as outlined in subsection 1.6 of this Exhibit.

2. CUSTOMER SUPPORT RESPONSIBILITIES. Customer shall have the following support responsibilities:

2.1 Ensure the appropriate Customer personnel have been trained in the operation, support, and management of the System.

2.2 Appoint an SMS system support coordinator, a LAN administrator, establish a central help desk, and, if applicable, a departmental help desk for the effective support and operation of the Applications and to ensure that Customer's support responsibilities are performed.

2.3 Cause Customer help desk personnel to report and close, upon resolution, all support issues electronically, or, if an electronic means is unavailable, via telephone. Upon resolution, Customer, at its option, may indicate a satisfaction value to assist SMS and Customer in evaluating the support process.

2.4 Provide SMS with both on-site access to each Facility and remote access to the System through the SMS-approved support network which Customer shall be responsible for acquiring and maintaining, as described in Schedule 1, as updated by SMS.

2.5 If required by SMS, maintain a support testing environment, configured with the Application(s) and such SMS-recommended Equipment and non-SMS software as specified in Schedule 1.

2.6 Maintain up-to-date Documentation, and, for the System located at the Facility, be solely responsible for maintaining all necessary backup, recovery and required system operating procedures as specified in the Documentation.

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2.7 Complete proper problem determination procedures, as specified in the Documentation and SMS' electronic bulletin board services, before contacting SMS and then perform problem diagnostic activities and remedial actions, as reasonably requested by SMS, and procedures specified by the third-party software and Equipment suppliers. Remedial diagnostic actions that SMS may require may include Customer installation of generally available Updates, Releases and required Versions (if applicable).

2.8 Implement Updates within sixty (60) calendar days, Releases within six (6) months and Versions with eighteen (18) months after the item's general availability, unless a delay is mutually agreed upon by the parties, or unless SMS announces extensions to these implementation time frames at the time of general availability.

2.9 Obtain at Customer expense all additional equipment, latest level of Third-Party Software as designated by SMS, and professional services required in response to federal and state regulatory change, or relating to Updates, Releases, Versions, Custom Programming or optional net new function obtained by Customer, or as required by Third-party Software LanVision requirements.

2.10 Remain on the latest release and/or version of all third-party software as designated by SMS and obtain support for all third-party software from the respective LanVision or support provider.

3. MONTHLY SUPPORT FEES. Customer will pay the Monthly Support Fees, if any, for the items listed in the Supplements for which a Monthly Support Fee is indicated (generally these will be perpetual licensed Applications, certain term-licensed Applications, and items of Custom Programming), commencing upon the first of the month immediately following the expiration of the initial Warranty Period of each item. For Applications or Custom Programming already installed, the Monthly Support Fee shall commence on the date of this Agreement. Other charges, if any, shall be invoiced separately. SMS may increase the Monthly Support Fee once in any twelve (12) month period, upon thirty (30) days' written notice, by the previous calendar year's percentage increase in the United States Department of Labor Consumer Price Index, All Urban Consumers ("CPI"); however, no such adjustment shall be made in the first twelve (12) months following the date of this Agreement. The Monthly Support Fee, if any, for Custom

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Programming requested by Customer shall be quoted at the time of mutual agreement to the Specification.

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4. MISCELLANEOUS.

4.1 If the parties objectively determine a problem is not covered by the warranty provisions of this Agreement, or if Customer elects not to perform the Customer's responsibilities, or if a problem exists in Customer-created Adaptations, any support efforts made by SMS may result in additional charges which shall be pursuant to SMS' then-current rates and terms.

4.2 Telecommunication services, remote programming support connections charges, installation by SMS of Updates, Releases or Versions, charges for non-warranty support in excess of Customer's monthly allowance, travel and living expenses and other expenses associated with support provided by SMS shall be paid by Customer pursuant to SMS' then-current rates and terms.

5. DEFINED TERMS.

5.1 "Applications" shall mean all of the computer software listed as Applications in the Supplements, exclusive of Adaptations, Modifications, and Custom Programming, if any. [For purposes of the SMS-LanVision agreement, all references to "Applications" shall mean "Software" as relating to LanVision's obligation to provide support services to SMS.]

5.2 "System" shall mean, collectively, the Applications, Architectural Software, Equipment, and Operating System Software as specified in a Supplement and its associated Schedule 1.

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Exhibit E

End User License Provisions

Reproduced below are standard SMS confidentiality and license provisions as of the date of this Agreement. SMS will license the Software to End Users pursuant to software licensing terms and conditions that include provisions similar to the following. SMS reserves the right to update these provisions to be consistent with SMS' then-current license terms and conditions that apply generally to its own software.

GRANT OF LICENSE.

1. SMS grants to Customer a license to use one (1) copy of object code for each perpetual-licensed Application and term-licensed Application during the associated term and their related Deliverables to be operated at one Customer data processing location by Customer's employees for the sole purpose of processing data of the Facilities. Each license granted herein shall be either perpetual or for a term, as indicated in the corresponding Supplement. Notwithstanding the one-copy license indicated above, where an Application is indicated as being licensed for specific number of installed workstations or servers, as applicable, such number indicates the maximum number of workstations or servers on which such Application may be installed. Where an Application is indicated as being licensed for a specific number of concurrent users, such number indicates the maximum number of users permitted to use such Application concurrently and such Applications may contain embedded software controls limiting user log on to the number of concurrent users licensed. For Applications which by their nature are PC-based, if no restriction for concurrent users or workstations or servers is indicated, then Customer may make whatever number of copies of such Applications as is reasonable and necessary.

2. Customer may make a reasonable number of backup copies (not to be concurrently used for active data processing) of each Application to be used solely for backup, emergency and/or testing purposes at the Customer location. Customer shall not disassemble, decompile, or otherwise reverse-engineer any of the Deliverables. Customer shall be responsible for the compliance with this Agreement by all of Customer's users granted access hereunder.

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Customer shall not transfer its license nor sublicense the Deliverables, except that this Agreement may be assigned by Customer pursuant to the assignment provisions of this Agreement.

3. The Architectural Software provides Customer with flexibility and control over Adaptations. Adaptations shall be made in a reasonable manner. With regard to Adaptations, SMS and Customer shall work together to identify efficiency issues which may be improved by changes to Customer's operational procedures, screen logic, pathways, data base access, etc.

4. SMS or its suppliers shall have the exclusive title to, copyright and trade secret right in, and the right to grant additional licenses to, the Applications and related Deliverables. Customer shall not remove or permit to be removed from any of the Deliverables (and shall include on any copies or partial copies thereof) any identifying mark or indicia of SMS' or other suppliers' rights in such item. If SMS incorporates the programs of any other suppliers in the Applications, those suppliers shall be entitled to the benefit of the obligations incurred by Customer in this Section and in the Confidentiality Section. Third-party Software provided by SMS may have license restrictions on the number of concurrent users and other qualifying terms and conditions. With respect to certain Third-party Software, where applicable, SMS shall hereby pass through to Customer the associated Third-party Software vendor's required license terms and conditions, as shall be indicated either in Schedule 1 or in another appropriate part of this Agreement, as applicable.

5. Schedule 1 contains the sizing and capacity assumptions and the Equipment and software configuration for the Facility. The configuration is based on, and limited to, use of the Version of the Applications listed in Schedule 1 within the operating context described in the Assumptions.

. CONFIDENTIALITY.

1. Each party shall retain in strict confidence the terms and conditions of this Agreement and all information and data relating to the other party's business, patients, employees, development plans, programs, documentation, techniques, trade secrets, systems, and know-how, and shall not, unless otherwise required by law, disclose such information to any third-party without the other's prior written consent. Upon SMS' request, Customer shall inform

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SMS in writing of the number and location of the original and all copies of each of the Deliverables.

2. For ISC-based Applications, SMS shall have the right to compile and distribute statistical analyses and reports utilizing aggregated data derived from information and data obtained from Customer, other SMS customers, and other sources, and for in-house Applications, Customer agrees to provide SMS with tapes on a semi-annual basis which contain the required information and data. Such reports and analyses shall be appropriately redacted and shall not identify Customer or any physician, employee, member of the medical staff or patient of Customer.

3. Customer shall have the right to disclose the Deliverables and other SMS information to Customer's employees, consultants, and agents on a need-to-know basis, provided that: (a) all such consultants and agents have entered into a confidentiality agreement with SMS in the form attached hereto as Exhibit D or other such agreement with SMS prior to such disclosure; (b) consultants and agents shall not access either the Implementation Methodology (used for development of Implementation Workplans) or the Builder's Edge development tools (an item of Architectural Software) without first entering into a corresponding license agreement with SMS; and (c) requests by Customer for SMS to permit a third-party to operate the Applications on Customer's behalf and/or requests to permit any competitors of SMS to have access to the Deliverables must receive separate prior written approval from SMS.

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Exhibit F

Subcontracted Services

1. GENERALLY. From time to time, SMS may wish to engage LanVision to perform implementation services (an "Engagement"). This Exhibit shall generally govern the relationship between SMS and LanVision regarding such Engagements. The particulars of such Engagements, such as the identity of the End User for whom the services are to be performed, the location of the Engagement, the description of the precise nature of the services to be performed, scheduling matters, the identification of project leaders, etc., shall be set forth in a written Engagement Letter which specifically refers to this Exhibit and which is signed by both parties. The Engagement can be extended by SMS within 20 days prior to its termination. If any provision in an Engagement Letter is inconsistent with any provision in this Exhibit, the former shall govern. SMS grants to LanVision a non-transferable, non-exclusive limited license to use Confidential Information (as hereinafter defined) certain SMS' software licensed to the End User, Documentation and other Deliverables solely for the purpose of assisting an End User identified in an Engagement Letter and solely for the purpose and duration of such engagement as set forth in the Engagement Letter and for no other purpose. SMS shall offer LanVision access to training in certain courses, at SMS' then-current rates, to install SMS applications software/systems in SMS' End User's facilities according to SMS' policies, reporting guidelines and SMS' proprietary methodologies and protocols. SMS shall be responsible for implementation project management which includes, but is not limited to, implementation workplan task definition, task assignment and scheduling, staff utilization, and the development, implementation and enforcement of all policies and procedures necessary to accomplish the implementation tasks in a timely and efficient manner. SMS shall be solely responsible for the billing of End Users for all implementation tasks in accordance with the application software/system agreement between SMS and SMS' End User. All services provided by LanVision employees under this Exhibit shall be performed in a competent and workmanlike manner.

2. AMOUNTS PAYABLE BY SMS TO LANVISION. LanVision shall submit to SMS, on a monthly basis, one invoice detailing: the hours and reasonably incurred expenses spent each week by each of its employees performing services described in Section 1 of this Exhibit and in an Engagement Letter. Such invoice must be submitted within thirty days from the end of the month in which the services were rendered and will include a copy of the LanVision expense report. LanVision shall also submit on a monthly basis, a SMS expense report detailing all Professional Service time

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provided and reasonable expenses incurred. Such report must be submitted within seven days from the end of the week in which such services were rendered. SMS shall pay the rates set forth in Exhibit I for services performed by LanVision employees, and shall pay the reasonably incurred expenses of such LanVision employees in accordance with the travel and living reimbursement policy, as described in Exhibit J. The rates described in the preceding sentence shall be effective for all new Engagements commencing after the effective date hereof. SMS shall pay the amount invoiced by LanVision within thirty (30) days from the date of receipt of an invoice, subject to its right to withhold payment of any portion of an invoice that is the subject of a good faith dispute.

3. RELATION OF THE PARTIES. LanVision is an independent consulting firm and all LanVision employees performing work pursuant to this Exhibit shall remain employees solely of LanVision and shall not be considered employees of SMS for any purpose. LanVision acknowledges that its employees will be performing work for the benefit of SMS' End Users and that LanVision is responsible for the performance of the work performed by its employees. LanVision shall remain responsible for payment of all wages and/or salaries and benefits due such employees, and for all applicable federal, state and local tax liabilities arising from its employees' work performed pursuant to this Exhibit.

4. PROPRIETARY RIGHTS. LanVision hereby assigns to SMS, without further consideration, sole right, title and interest in and to all programming, code, documentation and other written product, methodologies, processes, training materials, inventions, software, ideas and other information and work product (collectively, "Work") developed or generated by or on behalf of LanVision during the course of its and any of its subcontractors' performance under this Exhibit, including any and all patents, copyrights, trade secrets and other proprietary rights related thereto. All Work shall be deemed " Work for Hire" within the meaning of the Copyright Act of 1976, as amended. LanVision agrees to execute and deliver, or cause to be executed and delivered, all documents and instruments requested by SMS to evidence the foregoing assignment. LanVision represents and warrants that its performance under this Exhibit and ownership or use of the Work by SMS will not constitute an infringement of any third-party proprietary right. Any trade secrets conveyed to SMS by LanVision shall be treated as "Confidential Information" as defined in Section 6 hereof. LanVision may offer usage of LanVision's work product developed outside the scope of this Exhibit which is not derivative of SMS intellectual property without impairment of LanVision's right of sole ownership of such work product, so long as LanVision makes no improper use of Confidential Information

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5. TERM. The term of this Exhibit shall be coterminous with the term of the Agreement; provided that SMS shall be entitled to terminate any Engagement immediately upon any breach by LanVision of Sections 1, 4 or 6 of this Exhibit. Both parties shall make all reasonable efforts to cooperate in the timely completion of any Engagements that remain pending at the termination of the Agreement.

SMS shall be entitled to replace the LanVision consultant or terminate an Engagement if in SMS and/or its End User's reasonable opinion, the consultant's work is unsatisfactory or his or her conduct is inappropriate. The parties shall make all reasonable efforts to resolve any staffing issues in such a way as to avoid adverse customer impact. Sections 4, 6, 7 and 8 shall survive any termination of the Agreement.

6. CONFIDENTIALITY. The confidentiality provisions in Section 9 of the Agreement apply fully to all Engagements.

7. ACTIVITIES OUTSIDE THIS EXHIBIT. The parties recognize that LanVision has been, and is, in the business of providing services to its healthcare industry customers. Except as expressly provided herein, it is understood and agreed that: (i) services provided by LanVision to SMS are provided on a non-exclusive basis and that LanVision retains the right to continue to provide the same type of services, and any other services, to any other of its customers, including competitors of SMS; (ii) LanVision retains the right to carry on and expand its business including without limitation, that part of its business involved with the installation and implementation of software systems that are similar to or in competition with those of SMS, for LanVision's present and future customers: (iii) during the term of an Engagement and for a period of one year after phase 1 of an implementation (as defined below), LanVision will not provide or solicit to provide to a SMS customer when LanVision has been placed in an Engagement any direct services that LanVision could provide under this Exhibit, nor will LanVision respond to or solicit an SMS customer once SMS has identified that customer to LanVision as having requested services from SMS and customer has not previously contacted LanVision for this particular resource request prior to such customer being identified by SMS to LanVision. Notwithstanding the foregoing, LanVision shall be free to provide such services to its then-existing customers. For purposes of this Section 6(c), "phase 1 of an implementation" shall mean the date of first productive use of the particular set of SMS software applications, as defined in the Workplan. Nothing in this Exhibit shall be deemed in any way to prevent, restrict or limit LanVision in providing installation and implementation of

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software systems that are similar to or in competition with those of SMS provided that Confidential Information is not used in connection with such activities.

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Exhibit G

Entities Being Actively Marketed to by LanVision

[confidential]

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Exhibit H

Royalties

(a) INITIAL BASE FEES. SMS shall pay to LanVision a royalty equal to [confidential] of the Base Fee. The Initial Base Fees as of the date of this Agreement are as follows:

(i) Named User Fees

[confidential]

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(i) Concurrent User Fees

Concurrent, or Simultaneous Logged-on User, fees are based upon the number of simultaneous users rather than the number of workstations on which the software is installed. The cost of Concurrent Sublicenses is calculated as follows:

- Concurrent Server Sublicense Fees - these are calculated using the server fees listed in Section (i) of this Exhibit for the number of clients that equals the number of concurrent users.

Example: the ChartVision concurrent server license fee for [confidential] concurrent users would be [confidential].

- Concurrent Client Sublicense Fees - these are calculated by multiplying the number of concurrent users times the per workstation client fee (listed in Section (i) of this Exhibit) multiplied by [confidential].

  Example: The ChartVision concurrent client license fee for [confidential] concurrent users would be [confidential]

(b) Adjustments to the Base Fee. As part of the activities of the Executive Team, the parties agree to adjust the Base Fee of each Software module identified in Exhibit A used for calculating royalties due to LanVision on an annual basis throughout the term of this Agreement,

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with the new Base Fees becoming effective on April 1 of each year. The first such adjustment shall occur March 31, 1998, and adjustments shall be made annually thereafter. The Software module license fees and related third-party software components reflected in license agreements (fees per concurrent and or named user, per Software module) executed between LanVision and its Software shall be the basis for adjusting the Base Fee. The license fees for non-embedded third-party ("TPS") components of the Software (as identified in Exhibit C) used in this calculation shall be the greater of [confidential]. Examples:

[confidential]

The Base Fee for each Software module will be adjusted based on the previous 12 month period, not to exceed [confidential] per adjustment (increase or decrease) based on a calculation that is the average of the contracts accounted for in the Base Fee measurement period as follows:

BASE FEE ADJUSTMENT CALCULATION - For purposes of calculating the Base Fee, [confidential]. The average discount/premium factor for the remaining contracts will be used to adjust the Base fee. For example: [confidential]

ADDITIONAL BASE FEE ADJUSTMENT CONSIDERATIONS.

(i) In the event that a Base Fee adjustment results in an increase in the Base Fee of any Software module, price proposals previously disseminated by SMS shall be price protected for [confidential] from the date the Base Fee increase becomes effective.

(ii) In the event LanVision licenses the Software other than on a concurrent and/or named user fee basis, the Executive Team shall be responsible for determining the effect of such pricing on Base Fee adjustments.

(iii) In the event new Versions are introduced, the Executive Team shall determine the initial Base Fee and any special criteria, if any, for adjustment of that Base Fee. It is agreed that the Base Fee for any such new Version shall be reviewed and adjusted on April 1 following the introduction of the new Version and annually thereafter.

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(iv) Fees used to calculate adjustments to the Base Fee shall be exclusive of installation, delivery, support, hardware, training, consulting, professional services, and any other non-Software fees. For example, if LanVision licenses the Software and the fee includes installation and support, the installation and support components shall be deducted and the net fee shall be used for calculating Base Fee adjustments.

(c) LanVision shall provide to SMS semi-annual Software Sales reports, due no later than 30 days following the close of the semi-annual period, indicating all contracts executed by or on behalf of LanVision for the Software during the previous six (6) months, including at a minimum, the number of concurrent and/or named users licensed, the Software modules licensed, and the dollar amount per concurrent and/or named user charged for each Software module and non-embedded third-party software components. The parties agree to work through the Executive Team to define a common reporting format to facilitate this reporting process.

(d) [confidential]

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Exhibit I

Professional Service Rates

The Professional Service hourly rates for LanVision are:

Operational Consultant	[confidential]
Technical Consultant	[confidential]
Engagement Manager	[confidential]
Database Administrator	[confidential]
Installation Consultant	[confidential]
Technical Account Manager	[confidential]
Technical Account Specialist	[confidential]
Field Engineer	[confidential]

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Exhibit J

Summary of SMS' Travel and Living Policies

The following is a summary of the principal provisions of SMS' present policy for employee reimbursement for United States travel and living expenses. SMS passes these charges through to Customer.

1. Commercial Air Fare. Coach class, except business class is reimbursable on coast-to-coast flights if it is not more than twenty percent (20%) more expensive than coach class.

2. Car Rental. Compact car (unless the number of people being transported requires a larger car) from a car rental firm that provides SMS special reduced rates.

3. Use of Personal Automobile. At a rate of $.31 per mile plus tolls for the United States, except Puerto Rico which is reimbursed at the rate of $.34 per mile plus tolls.

4. Other Commercial Travel. Coach class for trains and buses. Airport vans are to be used in preference to taxi cabs for travel to and from airports where practical.

5. Parking. The maximum amount which is reimbursable for parking at any airport or train station is the standard per-day rate for remote parking.

6. Lodging. Lowest-priced, satisfactory accommodation. The use of hotels which provide SMS special reduced rates is encouraged.

7. Meals. An allowance for breakfast and dinner only Monday through Friday and additionally for lunch on weekends. The rates for these allowances are as follows:

Meal	Alaska, Chicago, Hawaii, Los Angles, New York City Vicinity, Puerto Rico, San Francisco, Washington, D.C.	All Other Locations
Breakfast	$ 8.00	$ 6.00

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Lunch	$ 5.00	$ 5.00
Dinner	$24.00	$21.00

Receipts are required for commercial travel, car rental, parking, and lodging.

Where SMS employees visit more than one client on the same trip, the expenses incurred are apportioned in relation to time spent with each client.

SMS' policy for employee reimbursement may be changed by SMS from time to time to reflect changes in economic and business factors.

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Exhibit 11.1
LANVISION SYSTEMS, INC.

STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

	Fiscal Year		
	1998	1997	1996
Net (loss)	$ (10,925,970)	$ (12,669,451)	$(4,668,540)
Average shares outstanding	8,811,019	8,827,478	8,283,761
Stock options:			
Total options	--	--	--
Assumed treasury stock buyback	--	--	--
Warrants assumed converted	--	--	--
Convertible redeemable preferred stock assumed converted	--	--	--
Number of shares used in per common share computation	8,811,019	8,827,478	8,283,761
Basic net (loss) per share of common stock	$ (1.24)	$ (1.44)	$ (.56)
Diluted net (loss) per share of common stock	$ (1.24)	$ (1.44)	$ (.56)

The diluted net (loss) per common share calculation, in fiscal 1998, 1997 and 1996, excludes the effect of the Stock Options and Warrants, as the inclusion thereof would be antidilutive.

Exhibit 13.1
LANVISION SYSTEMS, INC.

ANNUAL REPORT TO STOCKHOLDERS

LanVision Systems, Inc.

1998 Annual Report

[Art work - photograph of workstation with photo - montage of healthcare images]

[Company Logo]

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The Company has not paid a dividend on its Common Stock since its inception and does not intend to pay any cash dividends in the foreseeable future.

Stock Prices

Fiscal Year 1998

	HIGH	LOW	CLOSE
1st Quarter	$ 5.875	$ 3.625	$ 4.500
2nd Quarter	4.625	2.500	3.000
3rd Quarter	3.375	0.875	1.250
4th Quarter	3.250	0.906	2.719

Fiscal Year 1997

	HIGH	LOW	CLOSE
1st Quarter	$ 8.000	$ 3.375	$ 4.500
2nd Quarter	6.750	4.500	5.250
3rd Quarter	8.000	4.625	6.031
4th Quarter	6.750	4.250	4.625

Corporate Profile

LanVision Systems, Inc. is a leading supplier of Healthcare Information Access Systems and services that enable providers to access, on a real-time basis, all the various forms of clinical and financial patient information from a single permanent health information repository. The Company's solutions integrate a proprietary document imaging platform, application suites, and image and web-enabling tools, that allow for the seamless merger of "back office" functionality with existing Clinical Information Systems at the desktop. The Company offers a robust document imaging/management infrastructure (Foundation Suite) that is built for high volume transaction processing and is optimized for the healthcare industry. In addition to providing the clinician access to information not previously available at the desktop, the Company's applications fulfill the administrative and legal needs of the Medical Records and Patient

Financial Services departments. Furthermore, these systems have been specifically designed to integrate with any Clinical Information System. For example, the Company has integrated its products with selected systems from Shared Medical Systems Corporation, Cerner Corporation, IDX Systems Corporation and Oacis Healthcare Holdings Corp. By offering electronic access to all the components of the Medical Record, this integration completes one of the most difficult tasks necessary to provide a true Computer Based Patient Record.

LanVision
Healthcare Information Access Systems

LETTER TO STOCKHOLDERS

- ---

DEAR STOCKHOLDER:

Fiscal 1998 was a year of transition for LanVision. Management worked very hard to strengthen its product line, reduce operating expenses, improve operating performance, and position LanVision for a return to profitability.

Fiscal 1998 revenues approximated $12 million, a corporate record and a 38% increase over the prior year. Selling, general and administrative expenses were reduced by $1.5 million compared with the previous year and product research and development expenses were reduced by $1.8 million. The fiscal 1998 operating loss, before interest and restructuring charges, approximated $9.8 million, representing a $4 million improvement over the previous year. Additionally, excluding the operations of the Company's newly formed Virtual Healthware Services division, LanVision reduced its operating loss by $6.4 million, a 46% improvement over fiscal 1997. LanVision has reduced operating expenses throughout the year and management believes expenses are now at a level where LanVision can achieve operating profitability, before interest, based upon revenue growth similar to the growth experienced in fiscal 1998.

During 1998, LanVision completed many of its major software development efforts, and delivered four new products to customers. As we began 1998, the Company's installed base of customers predominately used its flagship product ChartVision, an Electronic Medical Record application, and an early version of AccountVision, the Patient Financial Services application. However, during 1998, LanVision delivered four new products: OmniVision, WebView, Release of Information (ROI) and On-Line Chart Completion. Additionally, Foundation Suite, the new object-oriented document imaging/management infrastructure product, was installed at a Beta site. The Company's product line is now more robust, and our customers are achieving great success with our products. Additionally, the Company's web-based products represent state-of-the-art software applications, which allow a more cost-effective deployment of LanVision's software within a healthcare facility or across a very large integrated delivery network. Management believes the LanVision product line is unparalleled by its competitors, and believes the competitive environment is favorable for the Company.

In February 1998, LanVision signed a major Remarketing Agreement with Shared Medical Systems Corporation (SMS). Throughout 1998, we have been integrating the LanVision products with the imaging component of the SMS NOVIUS product line and training SMS personnel on the LanVision products. SMS has begun selling the LanVision products in a controlled manner, through their specialized document imaging sales force. We are pleased to report that they have been successful in their efforts. During the second half of 1998, SMS executed four new contracts for LanVision's products; three of those contracts were signed in December 1998. Revenues on the three December contracts were deferred until certain integration is completed, which is expected to occur in the first or second quarter of fiscal 1999. SMS is enthusiastic about the LanVision product line, and plans to significantly expand their selling efforts in 1999.

In 1998, LanVision successfully launched its new Virtual Healthware Services division (VHS) that utilizes LanVision's web-based browser technology to delivery patient information via a secure Internet/Intranet from a remote central data center to anyone with access to the healthcare network on a real-time basis. We were pleased to announce that The Health Alliance, Inc., a group of five hospitals in the Greater Cincinnati Area, recently signed a four-year contract for VHS web-based services. VHS is a very cost-effective solution for the healthcare industry and management is optimistic this division can substantially increase revenues.

Despite the success in increasing revenues by 38%, revenue growth in 1998 was challenging because many healthcare organizations are absorbed with Year 2000 Compliance issues with their legacy systems. The Y2K issue may continue to adversely affect potential revenues in 1999, but as more potential customers complete this task, opportunities for new system sales should increase.

Management has made a significant effort to educate the industry about the benefits of LanVision's products and how the products are complementary to Clinical Information Systems. The healthcare industry is beginning to clearly recognize that LanVision's products are an integral component of the Computer Based Patient Record.

LanVision has weathered some difficult years. However, despite the difficult years, management has continued to significantly improve its product line and stay focused on its core business. There are many reasons to be optimistic about the future:

- the industry has a better understanding of the strategic importance of LanVision's products;

- the market for LanVision's products is estimated to exceed $1 billion and the market appears to be less than 10% penetrated;

- the LanVision product line is robust and customers are experiencing significant success with the products;

- LanVision's distribution capabilities are significantly improved; and

- the competitive environment appears to be favorable for LanVision.

We have utilized a significant amount of our capital to properly position LanVision in the marketplace. In 1998, the Company engaged CIBC Oppenheimer Corp., an investment banking firm, to help us plan for our future capital needs and assist us with decisions that maximize shareholder value.

We believe LanVision is built on a solid foundation and we approach the future with enthusiasm and confidence that 1999 will continue to reflect significantly improved operating results.

We are thankful for your continued confidence.

Sincerely,

/s/ J. Brian Patsy

J. Brian Patsy
Chairman of the Board and
Chief Executive Officer

LANVISION PRODUCTS

LanVision products are built using advanced document imaging/management and workflow automation technology. Imaging technology makes paper-based information, as well as medical images, sound and video information as readily available and easy to process as traditional electronic data. Workflow automation offers intelligent electronic routing of documents, sophisticated management tools and reporting to increase efficiency and to support business process re-engineering efforts.

For maximum flexibility, the LanVision family of products consists of four advanced software suites: the Foundation Suite, the Input Suite, the ChartVision Application Suite, and the AccountVision Application Suite. Moreover, users can choose from various viewers to support multiple implementation options, from traditional client/server networks to Internet-based installations that take advantage of standard web browsers and "thin clients."

IMAGE-ENABLING TECHNOLOGY

LanVision provides powerful image-enabling and workflow technology that allows healthcare users to immediately and simultaneously access any patient information, including multimedia and paper-based information, through their existing applications. As a result, any application across the entire enterprise can be image-enabled, including the host Healthcare Information Systems, human resources, materials management, patient billing, Clinical Data Repositories and others. When the Clinical Data Repository is image-enabled, users can access any piece of information on the same workstation and from the same screen display, including the point of patient care. This means users can view traditional electronic data and images simultaneously on the same screen without signing in and out of multiple applications.

THE FOUNDATION SUITE

The Foundation Suite is a robust document imaging/management infrastructure, built for maximum performance in high document volume settings and optimized for the healthcare industry. The features resident in the Foundation Suite were built around patient oriented objects that result in more efficient code and rapid delivery to market of new applications. The Foundation Suite is designed in a reusable object-oriented environment, utilizing a 32-bit Windows NT-based architecture, that provides the following essential document imaging/management functions: security, auditing, data access, printing/faxing, scheduling, data archiving migration and full problem diagnosis. The Foundation Suite offers the following unique enhanced security and auditing functions that are essential to integrated delivery networks in a multi-entity environment:

- multiple levels of security (administrative, user, patient, document, workstation, physical location, and healthcare entity) configurable by user, workstation and location,

- full audit trails and reporting of every record viewed, printed, faxed, processed or unauthorized login attempts at the patient encounter or document level.

(INPUT SUITE ICON GRAPHIC)

THE INPUT SUITE

The Company's Input Suite software is designed to enable healthcare organizations to enter paper-based and electronic information into the entire suite of LanVision products. The Input Suite was specifically designed for high volume healthcare environments to capture healthcare information in the most efficient and error-free manner. The Input Suite includes the following modules: scanning and indexing, OCR (Optical Character Recognition), and COLD (Computer Output to Laser Disk) with forms overlay and custom interfaces. The Input Suite supports the capture, indexing and viewing of over 250 different file formats, bar code recognition, image enhancement and a variety of industry standard document scanners.

(CHARTVISION SUITE ICON GRAPHIC)

THE CHARTVISION APPLICATION SUITE......a highly evolved Electronic Medical Record application

The ChartVision application suite provides physicians, clinicians and information management professionals throughout the healthcare enterprise with immediate and simultaneous access to the complete patient record. ChartVision is a highly evolved Electronic Medical Record application suite that provides streamlined processing and fast, easy access to all forms of healthcare information regardless of source. The ChartVision application suite includes the following modules:

On-Line Chart Completion (OCC)
Automates the identification of deficiencies in patient charts and electronically routes the incomplete documents to the appropriate medical and administrative personnel for on-line processing, chart completion, electronic signature and reporting. OCC includes proprietary embedded LanVision workflow software, which provides a significant cost advantage over alternative third-party workflow software when deployed throughout the healthcare enterprise.

Release of Information (ROI)
Fulfills internal and external requests for information and allows for automatic invoicing capability. ROI also provides the ability to electronically search for, print, mail or fax information to third parties that request copies of patient records. ROI is compatible with third-party workflow software such as Eastman Workflow.

On-Line Registration Processing
Provides an interactive, electronic pen-based module that allows patients to read, edit and sign consent forms and other documents on a portable tablet device. The forms are automatically filed in the patient's electronic folder.

(ACCOUNTVISION ICON GRAPHIC)

THE ACCOUNTVISION APPLICATION SUITE......a Patient Financial Services application

The AccountVision application suite is a Patient Financial Services application that enables hospitals and integrated delivery networks to streamline their business services operations by tracking patients from pre-admission and registration through account follow-up and final payment. AccountVision facilitates improved communications by providing immediate and simultaneous access to documents thus promoting prompt responses to patient and third-party inquiries concerning the patient bill and other correspondence. AccountVision's electronic financial folder concept closely integrates patient and non-patient documents to substantially improve productivity in a variety of areas, including secondary billing and claims follow-up. Utilizing the latest workflow technologies, AccountVision helps clients actively manage work in process by monitoring staff workloads, reassigning work to avoid backlogs and focusing work on appropriate revenue-producing tasks.

The AccountVision suite offers a unified database for patient folders (Medical Records) and non-patient folders (Patient Financial Services). The AccountVision application suite includes "Remittance Processing" which is a computer aided data entry application that applies optical character recognition and form recognition/processing technologies to automatically extract payment amounts and calculates adjustments from third-party payer remittance documents.

(VHS ICON GRAPHIC)

VIRTUAL HEALTHWARE SERVICES - VHS

Virtual Healthware Services became operational in April, 1998, to give healthcare providers an even more cost-effective solution to managing patient information. Through its use of Internet/Intranet technology, VHS helps hospitals and integrated delivery networks overcome the barriers of high capital and start-up costs as well as the technological burdens of implementing a document imaging/management and workflow system. VHS delivers document imaging/management and workflow services to its healthcare customers on an outsourced basis from a central data center. Hospitals and integrated delivery systems can therefore take advantage of a private Intranet or the World Wide Web, the lowest cost network infrastructure, for truly enterprisewide, secure access to healthcare information.

ACCESSANYWARE

AccessANYware is an entirely new product offering which will be introduced in 1999. AccessANYware combines the features of the Company's entire product portfolio into a common Graphical User Interface and offers the additional benefit of a unified database for efficient system administration and elimination of redundant data entry.

WEBVIEW - Web-Enabling Tool

The Internet, "thin client" workstations and web-enabled applications have generated enormous excitement in the world of Healthcare Information Systems. Their potential positive impact on the Computerized Patient Record (CPR) and document imaging is just now being realized. The Company believes these new technologies will combine to create sweeping changes in the way healthcare institutions manage, distribute and view their healthcare information. WebView will utilize the Internet/Intranet to allow remote users to easily access an integrated CPR and Document

Imaging System virtually anywhere. The more important benefits include:

- significantly lower maintenance and staff costs;
- lower data center investment and operating costs;
- the ability to seamlessly image-enable existing clinical, billing or other third-party information systems; and
- a higher degree of desktop integration.

WebView uses a familiar Internet browser "look and feel" and combines the platform-independent technologies, open standards and "network-centric" architecture of the Internet with the Company's robust application suites. As an intuitive, flexible, cost-effective, and scaleable product, WebView provides organizations with a "technology bridge" connecting the Company's application suites with innovative Internet/Intranet technologies.

OMNIVISION - Image-Enabling Tool

LanVision's powerful image-enabling tool (OmniVision) and workflow technology allows healthcare users to immediately and simultaneously access any patient information, including multimedia and paper-based information, through their existing hospital information system applications. As a result, any application across the entire enterprise can be image-enabled, including the host Healthcare Information Systems, patient billing, Clinical Data Repositories, human resources, materials management and other systems. LanVision has image-enabled many popular Clinical Data Repositories, such as those offered by Cerner Corporation, IDX Systems Corporation, Oacis Healthcare Holdings Corp. and the Company is in the process of image-enabling products from Shared Medical Systems Corporation. When the Clinical Data Repository is image-enabled, users can seamlessly access any type of healthcare information on the same workstation and from the same screen display, including the point of patient care. This means that users can view traditional electronic data and images simultaneously on the same screen without signing in and out of multiple applications.

The OmniVision image-enabling tool includes a full automation interface using Object Linking and Embedding and Component Object Modeling standards that allow third-party products to easily make calls to OmniVision. OmniVision is in production in several large-scale, enterprisewide applications including over 2,000 workstations at Memorial Sloan-Kettering Cancer Center and is being deployed on over 1,000 workstations at UCSF Stanford Healthcare.

PROFESSIONAL SERVICES

LanVision provides a full complement of professional services to implement its software applications. The Company believes that high quality consulting and professional implementation services are critical to attracting new customers and maintaining existing customer satisfaction. These services include implementation and training, project management, business process re-engineering and custom software development. The implementation and training services include equipment and software installation, system integration and comprehensive training. The project management services include needs and cost/benefit analysis, hardware and software configuration and business process re-engineering. The custom software development services include interface development, software development and modification services.

Selected Financial Data

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	Fiscal Year(1)				
OPERATING STATEMENT DATA:	1998	1997	1996	1995	1994
	(In thousands, except per share data)				
Total revenues	$ 12,010	$ 8,676	$ 10,310	$ 5,019	$ 2,412
Total operating expenses	22,470	22,493	16,271	5,324	3,105
Operating (loss)	(10,460)	(13,818)	(5,961)	(306)	(693)
Net (loss)	(10,926)	(12,669)	(4,669)	(326)	(572)
Basic and diluted net (loss) per share of common stock	$ (1.24)	$ (1.44)	$ (.56)	$ (.05)	$ (.09)
Shares used in computing per share data	8,811	8,827	8,284	6,190	6,190

	Fiscal Year(1)				
BALANCE SHEET DATA:	1998	1997	1996	1995	1994
	(In thousands)				
Cash, cash equivalents and investment securities	$ 5,445	$ 11,052	$ 26,592	$ -	$ 618
Working capital (deficiency)	7,290	7,141	17,864	(81)	271
Total assets	17,485	22,200	33,300	3,046	1,518
Convertible redeemable preferred stock	-	-	-	850	850
Total stockholders' equity (deficit)	5,847	16,816	29,921	(646)	(319)

(1) All references to a fiscal year refer to the fiscal year commencing February 1 of that calendar year and ending January 31 of the following year.
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CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

In addition to historical information, this Annual Report of LanVision Systems, Inc. contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Such factors include, without limitation, the risks and uncertainties discussed herein and as part of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company's future development efforts involve a high degree of risk, and the Company cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

LanVision Systems, Inc. is a leading supplier of Healthcare Information Access Systems and services that enable healthcare providers to access, on a real-time basis, all the various forms of clinical and financial patient information from a single permanent health information repository. The Company's solutions integrate a proprietary document imaging platform, application suites, and image and web-enabling tools, that allow for the seamless merger of "back office" functionality with existing Clinical Information Systems at the desktop. The Company offers a robust document imaging/management infrastructure (Foundation Suite) that is built for high volume transaction processing and is optimized for the healthcare industry. In addition to providing the clinician access to information not previously available at the desktop, the Company's applications fulfill the administrative and legal needs of the Medical Records and Patient Financial Services departments. Furthermore, these systems have been specifically designed to integrate with any Clinical Information System. For example, the Company has integrated its products with selected systems from Shared Medical Systems Corporation, Cerner Corporation, IDX Systems Corporation, and Oacis Healthcare Holdings Corp. By offering electronic access to all the components of the Medical Record, this integration completes one of the most difficult tasks necessary to provide a true Computer Based Patient Record. The Company's systems deliver on-line enterprisewide access to fully-updated patient information which historically was maintained on a variety of media, including paper, magnetic disk, optical disk, x-ray film, video, audio and microfilm.

The Company's revenues are derived from: the licensing and sale of systems comprising LanVision and third-party software and hardware components, product support, maintenance, professional services, and service bureau operations. Professional services include implementation and training, project management, custom software development and currently are provided only to the Company's customers with installed systems or who are in the process of installing systems. Revenues from professional services, maintenance and support services typically are expected to increase as the number of installed systems increase. The Company earns its highest margins on proprietary LanVision software and the lowest margin is on third-party hardware. Systems sales to customers may include different configurations of software and hardware, resulting in varying margins among contracts. The margins on professional services revenues are expected to fluctuate based upon the negotiated terms of the agreement with each customer and the Company's ability to fully utilize its professional services, maintenance and support services staff. Revenues from the Company's service bureau operations, which provides high quality, transaction-based document imaging/management services from a central data center, are expected to increase as the number of hospitals outsource services to the Company's Virtual Healthware Services division (VHS). Additionally, revenue from each VHS customer is expected to increase as the volume of archived historical data increases and retrievals of data increases as the systems are fully implemented within a healthcare facility.

On February 23, 1998, the Company entered into a Remarketing Agreement with Shared Medical Systems Corporation (SMS). Under the terms of the agreement, SMS was granted an exclusive worldwide license to distribute ChartVision, On-Line Chart Completion and Release of Information (ROI) to the SMS customer base and prospect base, as defined in the Agreement, and a non-exclusive license to distribute all other LanVision products. If SMS distributes any other Electronic Medical Record product competing with LanVision's products, the Company may terminate the SMS Remarketing Agreement.

The decision by a healthcare provider to replace, substantially modify or upgrade its information systems is a strategic decision and often involves a large capital commitment requiring an extended approval process. Since inception, the Company has experienced extended sales cycles, which has adversely affected revenues. It is common for sales cycles to take six to eighteen months from initial contact to the execution of an agreement. As a result, the sales cycles can cause significant variations in quarter to quarter operating results. These agreements cover the entire implementation of the system and specify the implementation schedule, which typically takes place in one or more phases. The agreements generally provide for the licensing of the Company's proprietary software and third-party software with a one-time perpetual license fee that is adjusted depending on the number of workstations using the software. Third-party hardware is usually sold outright, with a one-time fee charged for installation and training. Site-specific customization, interfaces with existing customer systems and other consulting services are sold on a fixed fee or a time and materials basis.

Generally, revenue from systems sales is recognized when an agreement is signed and products are shipped. Revenue recognition related to routine installation, integration and project management is deferred until the work is performed. If an agreement requires the Company to perform services and modifications that are deemed significant to system acceptance, revenue is recorded either on the percentage-of-completion method or revenue related to the delivered hardware and software components is deferred until such obligations are deemed insignificant, depending on the contractual terms. Revenues from consulting, training and services are recognized as the services are performed. Revenues from short-term support and maintenance agreements are recognized ratably over the term of the agreements. Billings to customers recorded prior to the recognition of the revenue are classified as deferred revenues. Revenue recognized prior to progress billings to customers is recorded as unbilled receivables.

In August 1997, the Company announced the formation of Virtual Healthware Services (VHS), a new healthcare information service bureau division that delivers high quality, transaction-based document imaging/management services to healthcare providers from a central data center. Also, in August 1997, the Company announced that The Detroit Medical Center (DMC) signed a three-year agreement with VHS, and the contract was expected to generate in excess of $6,000,000 in revenues over the initial term of the agreement. In 1997, and the first part of 1998, the Company spent approximately $4,000,000 to build the central data center and place it into production. During the first quarter of 1998, VHS began production at The DMC. However, during 1998, The Detroit Medical Center encountered financial difficulties, and as previously announced in February, 1999, The DMC as part of an overall financial restructuring, notified the Company that it sought to terminate its agreement with VHS. The agreement between The DMC and LanVision does not provide for early termination, and the Company has initiated settlement discussions with The DMC. However, at the present time, the Company is unable to predict the outcome of these discussions. At January 31, 1999, LanVision's receivables due from The DMC approximated $512,000. Management believes it has adequately provided for any possible uncollectible amounts.

In February, 1999, VHS announced it had signed a four-year contract with The Health Alliance, Inc., a group of five hospitals in the Greater Cincinnati Area.

RESULTS OF OPERATIONS

The following table sets forth, for each fiscal year indicated, certain operating data as percentages:

CONSOLIDATED STATEMENTS OF OPERATIONS(1)

	Fiscal Year(2)		
	1998	1997	1996
Systems sales	46.1%	46.4%	65.5%
Services, maintenance and support	46.4	53.6	34.5
Service bureau operations	7.5	-	-
Total revenues	100.0	100.0	100.0
Cost of sales	84.8	87.4	78.0
Selling, general and administrative	65.4	107.8	64.5
Product research and development	31.1	64.0	15.3
Restructuring expense	5.8	-	-
Total operating expenses	187.1	259.2	157.8
Operating (loss)	(87.1)	(159.2)	(57.8)
Other income (expense), net	(3.9)	13.2	12.5
Net (loss)	(91.0)%	(146.0)%	(45.3)%
Cost of systems sales	31.7%	60.7%	61.8%
Cost of services, maintenance and support	99.5%	110.6%	108.9%
Cost of service bureau operations	320.5%	-	-

(1) Because a significant percentage of the Company's operating costs are expensed as incurred, a variation in the timing of systems sales and installations and the resulting revenue recognition can cause significant variations in operating results. As a result, period to period comparisons may not be meaningful with respect to the past operations of the Company nor are they necessarily indicative of the future operations of the Company. The data in the table is presented solely for the purpose of reflecting the relationship of various operating elements to revenues for the periods indicated.

(2) All references to a fiscal year refer to the fiscal year of the Company commencing on February 1 of that calendar year and ending on January 31 of the following year.

COMPARISON OF FISCAL YEAR 1998 WITH 1997

REVENUES. Total revenues in fiscal year 1998 were $12,010,011 compared with revenues of $8,675,748 in fiscal year 1997, an increase of $3,334,263, or 38%. Revenues from systems sales in fiscal 1998 were $5,541,226, an increase of $1,513,519, or 38%, over systems sales in fiscal 1997. In 1998, three new customers accounted for approximately $2,500,000 of systems sales. In 1997, five new customers accounted for approximately $3,000,000 of systems sales. In 1998, systems sales from fulfillment of backlog and add-on business to existing customers approximated $3,000,000 compared with $1,000,000 in 1997. Revenues from services, maintenance and support in fiscal 1998 were $5,573,850, an increase of $925,809, or 20%, over fiscal 1997. Maintenance revenues in fiscal 1998 were $2,755,014, an increase of $604,244, or 28%, over maintenance revenues in fiscal 1997. The increase in maintenance revenues in fiscal 1998 is primarily due to new installations in 1997 and 1998 and the purchase of support services by these customers subsequent to the warranty period. Professional services revenues in fiscal 1998 were $2,818,836, an increase of $321,565, or 13%, over the professional services revenues in fiscal 1997. The increase is directly related to the increasing customer base. Revenue from the service bureau operations, a new activity in fiscal 1998, was $894,935. Almost all of this revenue was from one customer. The three new agreements and the one new service bureau customer in fiscal 1998 contributed $3,723,684 of revenues in fiscal 1998. The eight new agreements signed in fiscal 1997, contributed $4,272,118 of revenues in fiscal 1997. In fiscal 1998, three customers accounted for 27% of the Company's total revenues. In fiscal 1997, three customers accounted for 38% of the Company's total revenues.

Management estimates the U.S. market for the Company's products is in excess of $1 billion, and the market is less than 10% penetrated. Revenues for fiscal 1998 and 1997 have been less than the Company's plan for each year. The shortfall in revenues occurred for a variety of reasons. First, the healthcare industry has not moved forward as quickly as the Company and many others anticipated. For years, healthcare institutions spent significantly less on information systems than other industries. However, despite the need to catch up, existing Healthcare Information Systems personnel are only able to absorb so much new technology. There was a significant amount of new technology to assess, and there were wide differences of opinions on how to prioritize the many information technology projects. Many institutions began by replacing their clinical systems, and looked at the Electronic Medical Record (EMR) as a secondary priority. Consequently, the Company experienced very long sales cycles, and many cycles ended in no decision. In addition, it took longer for the Company to deliver products such as On-Line Chart Completion and Release of Information (formerly Enterprisewide Correspondence) than originally anticipated, and this adversely affected some existing sales opportunities. Additionally, in 1998, many healthcare organizations were preoccupied with Year 2000 Compliance remediation for existing systems and deferred purchase decisions on new systems. Also, throughout 1997 and a good part of 1998, the Company was almost completely dependent upon its direct sales force. Buying decisions at certain hospitals and integrated healthcare delivery networks are influenced by the recommendations of the largest Healthcare Information Systems (HIS) vendors, including: Shared Medical Systems Corporation, HBO & Company, Cerner Corporation, IDX Systems Corporation, Eclipsys Corporation, etc. It has been difficult for companies with relatively small sales forces to influence the buying decisions as effectively as the major HIS vendors. Prior to the Company's Agreement with SMS, the Company's products were not actively promoted by any of the five largest HIS vendors. A Remarketing Agreement with SMS was signed in February, 1998, and throughout fiscal 1998 LanVision and SMS have been integrating the LanVision product line with the SMS NOVIUS product and training SMS personnel. During 1998, SMS marketed the Company's products on a limited basis through their specialized document imaging sales force. SMS successfully closed four new agreements for LanVision's products. Three of these agreements were closed in December. The revenue on the three contracts closed in December, which approximates $792,000, has been deferred until certain integration is completed, which is expected to occur in the first or second quarter of fiscal 1999. Management believes a greater percentage of its future revenues will come from Remarketing Agreements with SMS and other HIS vendors. Management is actively pursuing Remarketing Agreements with additional HIS vendors.

Management believes the large HIS vendors, hospitals and integrated healthcare delivery networks now have a better understanding of the valuable role the Electronic Medical Record plays in providing a truly Computerized Patient Record. As more companies demonstrate the significant economic and operating benefits of the EMR and other imaging/management and workflow applications, management believes the future demand for the Company's products and services will increase.

The Company's VHS service bureau has been designed to overcome obstacles in the buying decision such as large capital commitment, length of implementation, and the scarcity of time for Healthcare Information Systems personnel to implement new systems. Through VHS, customers can rapidly deploy and access healthcare information using web-based technology from a central data center on a per transaction fee basis.

COST OF SALES. Cost of sales consists of cost of systems sales, cost of services, maintenance and support and cost of service bureau operations. Cost of systems sales includes amortization of capitalized software costs, royalties and cost of third-party software and hardware. Cost of systems sales, as a percentage of systems sales, will vary from period to period depending on the hardware and software configuration of the systems sold. The costs of systems sales as a percentage of revenues in fiscal 1998 and 1997 were 32% and 61%, respectively. The lower costs in 1998 reflect a higher mix of LanVision software with higher margins relative to the third-party hardware and software components with lower margins and higher costs. Cost of services, maintenance and support includes salaries and benefits for support and professional services personnel and the cost of third-party maintenance contracts. Cost of services, maintenance and support as a percentage of services, maintenance and support revenues in 1998 and 1997 were 100% and 111%, respectively. The improvement is primarily due to reduced staffing and improved efficiency. Costs equal or exceed revenues in both years for several reasons, including the fact that professional services personnel spend a portion of their time on non-billable activities such as the development of training courses and certain client management functions. Additionally, certain implementations have taken more effort than originally estimated and the additional time was non-billable. The cost of service bureau operations represents the depreciation of equipment and the personnel and other operating costs necessary to operate the central data center and remote scanning centers.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses consist primarily of personnel and related costs, travel and living expenses, advertising, trade shows, brochures, etc. for selling and marketing activities and general corporate and administrative activities. In fiscal 1998, selling, general and administrative expenses were $7,860,031 compared with $9,356,723 in fiscal 1997. The decrease in fiscal 1998 is primarily attributable to a reduction in staff and the associated occupancy, travel and living costs, etc. In 1998, the Company's selling, general and administrative average monthly employee head count approximated thirty-six employees compared with forty-nine employees in fiscal 1997.

PRODUCT RESEARCH AND DEVELOPMENT. Product research and development expenses in fiscal 1998 were $3,740,215 compared with $5,553,778 in fiscal 1997. The fiscal 1998 decrease reflects the use of significantly fewer outside contractors and reduced staffing levels as a result of the Company completing several major development projects and a deliberate effort to bring costs more in line with revenues. During 1998, the Company placed new releases of ChartVision, On-Line Chart Completion, Release of Information, OmniVision and WebView into production. Additionally, Foundation Suite was installed at a Beta site. The software development and quality assurance staff, averaged twenty-five employees in 1998, compared with an average of twenty-nine in fiscal 1997. Fiscal 1997 research and development expenses include a one-time charge of $475,000, which primarily represents the in-process research and development purchased from Optika Imaging Systems, Inc. Accordingly, the purchase of technology was accounted for net of the write-off. The Company capitalized $396,000 in product research and development costs in fiscal 1998 and in 1997.

RESTRUCTURING EXPENSE. During the year, the Company restructured certain aspects of its operations to flatten the management structure, reduce expenses in all areas and at the same time, improve customer service. Accordingly, the Company accrued the cost of severance and related taxes and fringe benefits. Additionally, the Company accrued the exit costs related to office space under long-term lease agreements that no longer provides economic benefit.

OTHER INCOME (EXPENSE). Other income in fiscal 1998 and 1997 consisted primarily of interest and gains on the sale of investment securities. The decrease is due primarily to less interest on fewer investments as securities were sold to fund operations. Interest expense in 1998, is related to the Company's $6,000,000 in borrowings. (See additional information in the Notes to the Consolidated Financial Statements.)

PROVISION FOR INCOME TAXES. The Company is in a tax (loss) carryforward position, and is unable to recognize a tax benefit for losses because the realization of a tax benefit for such losses is not assured. The tax (loss) carryforward approximates $25,900,000.

NET (LOSS). The Company's net (loss) in fiscal 1998 was $10,925,970 compared with $12,669,451 in fiscal 1997. Fiscal 1998 net (loss) per share was $1.24 compared with a net (loss) per share in fiscal 1997 of $1.44. The $1,743,481 decrease in the fiscal 1998 net (loss) compared with 1997 results primarily from an approximately $2,300,000 increase in non-VHS revenues which contributed to a $2,145,000 improvement in non-VHS gross margin, a $1,813,563 decrease in research and development and an approximately $2,000,000 decrease in non-VHS selling, general and administrative expenses. These improvements in operating performance were offset by VHS's $2,400,000 operating loss and 1998 net interest expense of $465,775 compared with 1997 net interest income of $1,148,293 and a $700,000 restructuring charge. Throughout 1998, the Company has reduced its operating expenses each quarter to ensure expenses are more in line with anticipated revenues. As a result, the Company has improved its overall operating performance.

Since commencing operations in 1989, the Company has incurred substantial operating losses. Although the Company achieved profitability in fiscal years 1992 and 1993, the Company incurred a net (loss) in fiscal years 1994 through 1998. Based upon the expenses associated with current and planned staffing levels, profitability is dependent upon increasing revenues. There can be no assurance that the Company will be able to achieve consistent profitability on a quarterly or annual basis nor be able to sustain or increase its revenue growth in future periods. Management believes historical operating results are not indicative of the future performance of the Company in the long-term.

BACKLOG. At January 31, 1999, the Company has master agreements or purchase orders for systems and related services (excluding support and maintenance, and transaction-based revenues for the VHS service bureau), which have not been delivered, installed and accepted which, if fully performed, would generate future revenues of approximately $7,000,000. The related products and services are expected to be delivered over the next two to three years. In addition, customers contract for maintenance and support services on a monthly, quarterly or annual basis. In 1998, maintenance and support revenues approximated $2,755,000 and are expected to increase in fiscal 1999. Furthermore the VHS division has entered into a service bureau agreement which is expected to generate revenues in excess of $2,000,000 over the four-year life of the contract.

YEAR 2000 COMPLIANCE. The Year 2000 Compliance issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Any of the Company's internal use computer programs and hardware as well as its software products that are date sensitive may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in normal business activities for both the Company and its customers who rely on its products.

The Company is in the final stages of reviewing, correcting and testing Year 2000 Compliance issues related to its internal use software and hardware and the Company's products, including third-party software components offered for resale.

The Company presently believes the Year 2000 Compliance issue will not pose significant operational problems for the Company or its customers. However, if such final testing and corrections are not completed in a timely manner, the Year 2000 Compliance issue could have a material impact on the Company and its customers.

The Company has divided the Year 2000 Compliance issue into two areas: software products and systems sold to customers and internal use software and hardware.

With regard to software products sold to customers, the Company has: completed the overall Year 2000 Compliance remediation plan; made a review of the existing software code; corrected all known Year 2000 code problems; developed a test plan; and tested the revised code for quality assurance. The Year 2000 quality assurance testing, which included integration testing of LanVision software products and other third-party software and hardware system components, has been completed and where necessary the code was modified. This testing and modification was done in several iterations. All LanVision Year 2000 Compliant software products have been scheduled for Beta testing at a customer site sometime in the first quarter of 1999. If in Beta testing any additional problems are encountered, the software code will be further modified and tested. The Year 2000 Compliant software Beta testing will be performed at selected customer sites using the customer's current hardware configurations. The Company believes that Year 2000 compatible equipment is available for acquisition by customers, if necessary, to ensure installed systems operate properly.

Should the LanVision systems sold to customers not be timely modified to be Year 2000 Compliant, the most likely worst case scenario would be that customers could: suspend use of the system until such time as the Year 2000 Compliance issues are remediated; or continue to use the systems with reduced functionality. However, based upon current information and the time remaining to complete the remediation, the Company believes that the risk of such occurrence is minimal. Contingency plans have not yet been developed. However, if needed, contingency plans will be developed.

With regard to the Company's service bureau operations, the Company has determined that its systems and equipment are Year 2000 Compliant, except for completing the Beta testing of the LanVision software products discussed above and telecommunications services provided by outside vendors. The Company is in the process of determining the Year 2000 Compliance issues that could affect operations should the telecommunications vendors not be compliant. Without Year 2000 Compliant LanVision software and telecommunications, the service bureau operations will not be able to provide current levels of services to its customers and no contingency plan has yet been developed. However, if needed, contingency plans will be developed.

With regard to internal use software and hardware, the Company has reviewed substantially all of the internally used software and equipment, and has determined that a small amount of older computer equipment must be replaced, but the type and amount are not significant and will be replaced in the ordinary course as systems are upgraded. With regard to third-party software, it has been determined that some software is not compliant and will be upgraded in 1999, as vendors provide Year 2000 Compliant versions. The Company also utilizes third-party vendors for processing data and payments, e.g. payroll services, 401(k) plan administration, check processing, medical benefits processing, etc. The Company has initiated communications with its vendors to determine the status of their systems. The major vendors have advised the Company they are currently Year 2000 Compliant. No contingency plan has been developed. However, if needed, contingency plans will be developed.

The Company will utilize both internal and external resources to reprogram, or replace and test its software products for the Year 2000 Compliance modifications. The Company anticipates completing the Year 2000 Compliance project as soon as practical, but not later than July 31, 1999, which is prior to any anticipated impact. The total cost of the Year 2000 Compliance remediation is not considered to be material (less than $500,000), and the remaining remediation, estimated at less than $200,000, will be funded through existing cash resources and future operating cash flows. The requirements for the correction of Year 2000 Compliance issues and the date on which the Company believes it will complete the Year 2000 Compliance modifications are based on management's current best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that may cause such material differences include, but are not limited to, the availability of personnel trained in this area, the ability to locate and collect all relevant computer codes and similar uncertainties.

The Company has warranted, to certain customers, that its products will be Year 2000 Compliant. If the Company were unable to provide a Year 2000 Compliant solution to the customers, the customers could claim breach of contract and seek available legal remedies. Provisions of the Company's long-term debt agreement and the Remarketing Agreement with SMS required the Company's products be Year 2000 Compliant by December 31, 1998. Although, LanVision's products were modified to be Year 2000 Compliant by December 31, 1998, all Alpha and Beta testing was not completed as of that date. Waivers of compliance have been received from the lender and the Remarketing Agreement with SMS is being amended. If the Company's products are not Year 2000 Compliant by July 31,1999, and a waiver of compliance from the lender or SMS can not be obtained relative to that date, this would be an event of default of the long-term debt agreement and may give rise to legal action for breach of contract under the SMS Remarketing Agreement. Based upon the current best estimate for remediation of the Year 2000 Compliance issues, the Company believes the risk is minimal that the Company will not comply with current commitments and internal processing needs.

COMPARISON OF FISCAL YEAR 1997 WITH 1996

REVENUES. Total revenues in fiscal year 1997 were $8,675,748 compared with revenues of $10,310,052 in fiscal year 1996, a decrease of $1,634,304, or 16%. Revenues from systems sales in fiscal 1997 were $4,027,707, a decrease of $2,728,519, or 40%, over systems sales in fiscal 1996. The decrease in systems sales is primarily attributable to less hardware and third-party software sales for the newer installations compared with the prior year installations. The mix of hardware, third-party software and LanVision software varies significantly among contracts based upon the individual customer needs, the timing of the installations, and implementations of future phases. Revenues from services, maintenance and support in fiscal 1997 were $4,648,041, an increase of $1,094,215, or 31%, over fiscal 1996. Maintenance revenues in fiscal 1997 were $2,150,770, an increase of $965,105, or 81%, over maintenance revenues in fiscal 1996. The increase in maintenance revenues in fiscal 1997 is primarily due to new installations in 1996 and 1997 and the purchase of support services by these customers subsequent to the warranty period. Professional services revenues in fiscal 1997 were $2,497,271, an increase of $129,110, or 5%, over the professional services revenues in fiscal 1996. Substantially all of the increase came from increased project management fees. The eight new agreements signed in fiscal 1997, contributed $4,272,118 of revenues in fiscal 1997. The remaining systems revenues for the year represent the implementation of previously signed agreements (backlog) and from add-on sales to existing customers. In fiscal 1997, three customers accounted for 38% of the Company's total revenues. In fiscal 1996, three customers accounted for 49% of the Company's total revenues.

COST OF SALES. Cost of sales consists of cost of systems sales and cost of services, maintenance and support. Cost of systems sales includes amortization of capitalized software costs, royalties and cost of third-party software and hardware. Cost of systems sales, as a percentage of systems sales, will vary from period to period depending on the hardware and software configuration of the systems sold. Cost of services, maintenance and support includes salaries and benefits for support and professional services personnel and the cost of third-party maintenance contracts. The cost of systems sales and services, maintenance and support, as a percentage of revenues, was substantially the same as the prior year. The cost of systems sales reflects a lower margin on hardware and third-party software in 1997. Customers are able to purchase hardware and third-party software products from other vendors which result in competitive pricing and lower margins. The services, maintenance and support costs increased substantially in 1997, as additional customers elected to purchase support services subsequent to the warranty period. Fiscal year 1997 expenses reflect increased average staffing levels compared with 1996 staffing levels, additional travel and living expenses for onsite support, increases in third-party support services and increased general operating expenses of the support department.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses consist primarily of personnel and related costs, travel and living expenses, advertising, trade shows, brochures, etc., costs for selling and marketing activities and general corporate and administrative activities. In fiscal 1997, selling, general and administrative expenses were $9,356,723 compared with $6,647,470 in fiscal 1996. The increase in fiscal 1997 is primarily attributable to the full impact, in 1997, of the gradual build up in 1996 of staff and the associated occupancy, travel and living costs, etc. as the Company expanded operations in 1996. In 1996, the Company's selling, general and administrative average monthly employee head count approximated thirty-four employees compared with forty-nine employees in fiscal 1997.

PRODUCT RESEARCH AND DEVELOPMENT. Product research and development expenses in fiscal 1997 were $5,553,778 compared with $1,580,089 in fiscal 1996. The fiscal 1997 increase is primarily attributable to: the increase in the software development and quality assurance staff, from an average of thirteen employees in 1996, to an average of twenty-nine in fiscal 1997, and approximately $2,200,000 increase in the cost of independent contractors for specific development projects, including ChartVision upgrades, On-Line Chart Completion, Release of Information, AccountVision Version 4.0, AV Remit, a new 32 bit core services architecture, etc. Fiscal 1997 research and development expenses include a one-time charge of $475,000, which primarily represents the in process research and development purchased from Optika Imaging Systems, Inc. Accordingly, the purchase of technology was accounted for net of the write-off. The Company capitalized $396,000 and $170,000 in product research and development costs in fiscal 1997 and 1996, respectively.

OTHER INCOME (EXPENSE). Other income in fiscal 1997 consisted primarily of interest and gains on the sale of investment securities. The decrease is due primarily to less interest on fewer investments as securities were sold to fund operations.

NET (LOSS). The Company's net (loss) in fiscal 1997 was $12,669,451 compared with $4,668,540 in fiscal 1996. Fiscal 1997 net (loss) per share was $1.44 compared with a net (loss) per share in fiscal 1996 of $.56. The approximately $8,000,000 increase in the fiscal 1997 loss compared with 1996 results primarily from increases of approximately: $4,000,000 in research and development; $2,700,000 in selling, general and administrative; a decrease in gross margin from systems sales of approximately $1,000,000 on lower revenues; and an approximately $144,000 decrease in other income (expense), net.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception in 1989, the Company has funded its operations, working capital needs and capital expenditures primarily from a combination of cash generated by operations, a 1994 private placement of convertible redeemable preferred stock, an initial public offering and borrowings, including, a $6,000,000 loan in July, 1998. (See additional information in the Notes to the Consolidated Financial Statements.)

The Company's customers typically have been well-established hospitals or medical facilities with good credit histories, and payments have been received within normal time frames for the industry. However, recently some healthcare organizations have experienced significant operating losses as a result of limits on third-party reimbursements from insurance companies and governmental entities. Agreements with customers often involve significant amounts and contract terms typically require customers to make progress payments.

The Company has no significant obligations for capital resources, other than noncancelable operating leases in the total amount of approximately $2,109,000, payable over the next five years. However, the VHS service bureau operations will need to acquire additional software and equipment as VHS adds additional hospitals and clinics to its customer base. The central data center has been configured to serve approximately fifty hospitals, with significant expansion capabilities. However, for certain new customers VHS will operate one or more onsite document capture centers and will provide the necessary scanning equipment. Each document capture center is expected to require approximately $125,000 of equipment. Also, because VHS charges for its services on a per transaction fee basis, the Company's cash flow for capital and operating expenses will normally be greater than cash inflows until customers begin to use the system at anticipated normal volumes for a period of time.

Over the last several years, the Company's revenues have been less than the Company's internal plans. However, during the same time period, the Company has expended significant amounts for capital expenditures, product research and development, sales, support and consulting expenses as the Company expanded its operations in anticipation of significant revenue growth. This has resulted in significant net cash outlays over the last three years. Although the Company has increased its revenues, reduced staffing levels and related expenses, and improved operating performance, the Company's expenses continue to exceed its revenues. Accordingly, to achieve profitability, and positive cash flow, it is necessary for the Company to increase revenues or continue to reduce expenses. Management believes that the recent general release of the products described above under "Product Research and Development" has significantly strengthened the product lines. Additionally, the SMS Remarketing Agreement has significantly expanded the sales distribution capabilities, and management believes that market opportunities are such that the Company should be able to continue to increase its revenues. However, there can be no assurance the Company will be able to continue to increase its revenues.

At January 31,1999, the Company had cash and cash equivalents of $5,445,498. Cash equivalents consist primarily of overnight bank repurchase agreements. Under the terms of its loan agreement, the Company has agreed to maintain a minimum cash and investment balance of $2,400,000.

Management has significantly reduced operating expenses throughout 1998, and believes the Company could achieve break-even or profitability in fiscal year 1999, before interest expense, on a revenue increase similar to 1998. However, based upon current expenditure levels and in the absence of increased revenues, the Company would continue to operate at a loss. Accordingly, for the foreseeable future, management will need to continually assess its revenue prospects compared to its current expenditure levels. If it does not appear likely that revenues will increase, it will be necessary to further reduce operating expenses or raise cash through additional borrowings, the sale of assets, or other equity financing. Certain of these actions will require lender approval. However, there can be no assurance the Company will be successful in any of these efforts. If it is necessary to significantly reduce operating expenses, this could have an adverse affect on future operating performance.

In December, 1998, the Company retained CIBC Oppenheimer Corp. as a financial advisor to help the Company plan for future capital needs and assist the Company with decisions that maximize shareholder value.

To date, inflation has not had a material impact on the Company's revenues or expenses. Additionally, the Company does not have any significant market risk exposure at January 31, 1999.

REPORT OF MANAGEMENT

LanVision Systems, Inc. is responsible for the preparation, integrity and fair presentation of its published financial statements. The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on judgments and estimates made by management. Management also prepared the other information included in this Annual Report and is responsible for its accuracy and consistency with the Consolidated Financial Statements.

The Consolidated Financial Statements have been audited by the independent accounting firm, Ernst & Young LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. The Company believes that all representations made to the independent auditors during their audit were accurate and appropriate. Based on their audit of the Consolidated Financial Statements, Ernst & Young LLP have issued their audit report, which appears below.

In meeting its responsibility for the integrity of the Consolidated Financial Statements, management relies on a system of internal controls. This system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The Company continuously assesses the effectiveness of the internal controls and makes improvements thereto as necessary.

/s/ J. Brian Patsy	/s/ Thomas E. Perazzo
J. Brian Patsy Chairman of the Board and Chief Executive Officer	Thomas E. Perazzo Chief Operating Officer and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

Board of Directors
LanVision Systems, Inc.

We have audited the consolidated balance sheets of LanVision Systems, Inc. as of January 31, 1999 and 1998, and the related consolidated statements of operations, changes in convertible redeemable preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended January 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LanVision Systems, Inc. at January 31, 1999 and 1998 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 1999 in conformity with generally accepted accounting principles.

Cincinnati, Ohio
March 9, 1999 /s/ Ernst & Young LLP

CONSOLIDATED BALANCE SHEETS

ASSETS

	Fiscal Year 1998	Fiscal Year 1997
Current assets:		
Cash and cash equivalents	$ 5,445,498	$ 2,142,881
Investment securities	--	5,074,258
Accounts receivable, net of allowance for doubtful accounts of $325,000 and $265,000, respectively	3,642,330	2,992,987
Unbilled receivables	2,383,964	1,135,365
Other	1,024,960	1,179,603
Total current assets	12,496,752	12,525,094
Property and equipment:		
Computer equipment	4,407,863	3,876,962
Computer software	588,441	487,841
Office furniture, fixtures and equipment	1,534,206	1,424,036
Leasehold improvements	930,920	931,020
	7,461,430	6,719,859
Accumulated depreciation and amortization	(3,321,466)	(1,563,202)
	4,139,964	5,156,657
Investment securities	--	3,834,908
Capitalized software development costs, net of accumulated amortization of $920,228 and $661,896, respectively	749,701	612,033
Other	98,633	71,430
	$ 17,485,050	$ 22,200,122

LIABILITIES, CONVERTIBLE REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

	1998	1997
Current liabilities:		
Accounts payable	$ 474,189	$ 1,631,941
Accrued compensation	543,790	943,221
Accrued other expenses	3,105,021	1,746,883
Deferred revenues	1,083,837	1,061,996
Total current liabilities	5,206,837	5,384,041
Long-term debt	6,000,000	--
Long-term accrued interest	431,167	--
Convertible redeemable preferred stock, $.01 par value per share, 5,000,000 shares authorized	--	--
Stockholders' equity:		
Common stock, $.01 par value per share, 25,000,000 shares authorized, 8,896,500 shares issued	88,965	88,965
Capital in excess of par value	35,102,459	35,110,817
Treasury stock, at cost, 81,980 and 90,500 shares, respectively	(389,692)	(430,188)
Accumulated (deficit)	(28,954,686)	(18,028,716)
Accumulated other comprehensive income	--	75,203
Total stockholders' equity	5,847,046	16,816,081
	$ 17,485,050	$ 22,200,122

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year 1998	Fiscal Year 1997	Fiscal Year 1996
REVENUES:			
Systems sales	$ 5,541,226	$ 4,027,707	$ 6,756,226
Services, maintenance and support	5,573,850	4,648,041	3,553,826
Service bureau operations	894,935	--	--
Total revenues	12,010,011	8,675,748	10,310,052
OPERATING EXPENSES:			
Cost of systems sales	1,758,222	2,443,319	4,173,707
Cost of services, maintenance and support	5,543,302	5,139,672	3,869,636
Cost of service bureau operations	2,868,436	--	--
Selling, general and administrative	7,860,031	9,356,723	6,647,470
Product research and development	3,740,215	5,553,778	1,580,089
Restructuring expense	700,000	--	--
Total operating expenses	22,470,206	22,493,492	16,270,902
Operating (loss)	(10,460,195)	(13,817,744)	(5,960,850)
Other income (expense):			
Interest income	385,100	1,148,293	1,372,235
Interest expense	(850,875)	--	(79,925)
Net (loss)	$(10,925,970)	$(12,669,451)	$ (4,668,540)
Basic and diluted net (loss) per common share	$ (1.24)	$ (1.44)	$ (.56)
Number of shares used in per common share computations	8,811,019	8,827,478	8,283,761

CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

	Convertible redeemable preferred stock	Stockholders' Equity (Deficit) Common stock	Capital in excess of par value	Treasury stock	Accumulated (deficit)	Accumulated other comprehensive income
Balances at January 31, 1996	$ 850,000	$ 45,000	$ --	$ --	$ (690,725)	$ --
Issuance of common stock	--	29,005	34,275,777	--	--	--
Conversion of preferred stock	(850,000)	14,960	835,040	--	--	--
Net (loss)	--	--	--	--	(4,668,540)	--
Unrealized net gains on investment securities, net of reclassification adjustment	--	--	--	--	--	80,606
Comprehensive (loss)						
Balances at January 31, 1997	--	88,965	35,110,817	--	(5,359,265)	80,606
Purchase of common stock	--	--	--	(430,188)	--	--
Net (loss)	--	--	--	--	(12,669,451)	--
Unrealized net gains on investment securities, net of reclassification adjustment	--	--	--	--	--	(5,403)
Comprehensive (loss)						
Balances at January 31, 1998	--	88,965	35,110,817	(430,188)	(18,028,716)	75,203
Sale of treasury stock	--	--	(8,358)	40,496	--	--
Net (loss)	--	--	--	--	(10,925,970)	--
Unrealized net gains on investment securities, net of reclassification adjustments	--	--	--	--	--	(75,203)
Comprehensive (loss)						
Balances at January 31, 1999	$ --	$ 88,965	$ 35,102,459	$ (389,692)	$(28,954,686)	$ --

Stockholders' Equity (Deficit)

Total

	stockholders' equity (deficit)
Balances at January 31, 1996	$ (645,725)
Issuance of common stock	34,304,782
Conversion of preferred stock	850,000
Net (loss)	(4,668,540)
Unrealized net gains on investment securities, net of reclassification adjustment	80,606
Comprehensive (loss)	(4,587,934)
Balances at January 31, 1997	29,921,123
Purchase of common stock	(430,188)
Net (loss)	(12,669,451)
Unrealized net gains on investment securities, net of reclassification adjustment	(5,403)
Comprehensive (loss)	(12,674,854)
Balances at January 31, 1998	16,816,081
Sale of treasury stock	32,138
Net (loss)	(10,925,970)
Unrealized net gains on investment securities, net of reclassification adjustments	(75,203)
Comprehensive (loss)	(11,001,173)
Balances at January 31, 1999	$ 5,847,046

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year		
	1998	1997	1996
Operating activities:			
Net (loss)	$(10,925,970)	$(12,669,451)	$ (4,668,540)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:			
Depreciation and amortization	2,016,596	1,003,703	451,452
Increase in long-term accrued interest	431,167	--	--
Cash (used for) provided by assets and liabilities:			
Accounts and unbilled receivables	(1,897,942)	(530,496)	(1,049,137)
Other assets	154,643	(606,635)	(408,786)
Accounts payable	(1,157,752)	382,604	64,180
Accrued expenses	958,707	1,061,702	1,417,675
Deferred revenues	21,841	561,213	(345,321)
Net cash (used for) operating activities	(10,398,710)	(10,797,360)	(4,538,477)
Investing activities:			
Purchases of investment securities	(9,836,409)	(29,409,163)	(42,377,849)
Proceeds from sales of investment securities	18,670,372	46,422,143	16,490,387
Purchases of property and equipment	(741,571)	(3,779,863)	(2,444,620)
Purchase of technology	--	(100,000)	--
Capitalization of software development costs	(396,000)	(396,000)	(170,000)
Other	(27,203)	(30,911)	--
Net cash provided by (used for) investing activities	7,669,189	12,706,206	(28,502,082)
Financing activities:			
Proceeds from issuance of long-term debt	6,000,000	--	--
Payments on line of credit	--	--	(600,000)
Issuance of common stock	--	--	34,304,782
Sale (purchase) of treasury stock	32,138	(430,188)	--
Net cash provided by (used for) financing activities	6,032,138	(430,188)	33,704,782
Increase in cash and cash equivalents	3,302,617	1,478,658	664,223
Cash and cash equivalents at beginning of year	2,142,881	664,223	--
Cash and cash equivalents at end of year	$ 5,445,498	$ 2,142,881	$ 664,223
Supplemental cash flow disclosures:			
Interest paid	$ 336,000	$ --	$ 79,925

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LanVision Systems, Inc. (the "Company") operates in one segment as a provider of Healthcare Information Access Systems through the licensing of software applications and the use of such applications through its service bureau operations. The Company's products enable hospitals and integrated healthcare delivery systems in the United States to capture, store, manage, route, retrieve and process vast amounts of clinical and financial patient information.

FISCAL YEAR

All references to a fiscal year refer to the fiscal year of the Company commencing February 1 in that calendar year and ending on January 31 of the following year.

CONSOLIDATION

The consolidated financial statements include the accounts of LanVision Systems, Inc. and its subsidiary, LanVision, Inc. All significant intercompany transactions are eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue is derived from: the licensing and sale of systems comprising internally developed software, third-party software and hardware components; product support, maintenance and professional services; and service bureau operations that provide high quality, transaction-based document imaging/management services from a central data center. The Company's revenue recognition policies through the end of fiscal 1997, conformed to Statement of Position 91-1, Software Revenue Recognition. Effective for fiscal 1998, the Company's revenue recognition policies conform to Statement of Position 97-2, Software Revenue Recognition. The change in accounting policy did not have a material impact on revenue recognition. Generally, revenue from software license fees and hardware sales is recognized when a master agreement is signed and products are shipped. Revenue related to routine installation and integration and project management is deferred until the work is performed. If a contract requires the Company to perform services and modifications that are deemed significant to system acceptance, revenue is recorded either on the percentage-of-completion method or revenue related to the delivered hardware and software components is deferred until such obligations are deemed insignificant, depending on the contractual terms. Revenue from consulting, education, services and service bureau operations is recognized as the services are performed. Revenue from short-term support and maintenance agreements is recognized ratably over the term of the agreements. Billings to customers recorded prior to the recognition of revenue are classified as deferred revenues. Revenue recognized prior to progress billings to customers is recorded as unbilled receivables.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand deposits, overnight repurchase agreements, money market accounts and highly liquid investments with original maturities of three months or less.

INVESTMENT SECURITIES

The Company accounts for investment securities under the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company's investment securities are classified under Statement No. 115 as "available-for-sale" and, accordingly, are carried at fair market value. Unrealized net gains are included as the accumulated other comprehensive income component of stockholders' equity, net of income taxes, until realized. Interest earned is included in other income (expense) in the Consolidated Statements of Operations. Effective for fiscal 1998, the Company's accounting disclosure for unrealized net gains conforms to Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income. The change did not have a material impact on the financial statements.

CONCENTRATIONS

Financial instruments, which potentially expose the Company to concentrations of credit risk, as defined by Statement of Financial Accounting Standards No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, consist primarily of accounts receivable. The Company's accounts receivable are concentrated in the healthcare industry. However, the Company's customers typically have been well-established hospitals or medical facilities with good credit histories and payments have been received within normal time frames for the industry. However, recently some healthcare organizations have experienced significant operating losses as a result of limits on third-party reimbursements from insurance companies and governmental entities. The Company's client, The Detroit Medical Center (DMC), is experiencing significant operating losses and, as part of an overall restructuring, they are seeking to cancel its contract with the Company's service bureau operations. The agreement between The DMC and the Company does not provide for an early termination, and The DMC has certain performance obligations. The Company has initiated settlement discussions with The DMC. However, the Company cannot predict the outcome of these discussions. At January 31, 1999, LanVision's receivables due from The DMC approximated $512,000. Management believes it has adequately provided for any possible uncollectible amounts.

To date, the Company has relied on a limited number of customers for a substantial portion of its total revenues. The Company expects that a significant portion of its future revenues will continue to be generated by a limited number of customers and its remarketing partners. The failure to obtain new customers or expand sales through remarketing partners, the loss of existing customers or reduction in revenues from existing customers could materially and adversely affect the Company's operating results (See Note 6.).

The Company currently buys all of its hardware and some major software components of its Healthcare Information Access Systems from third-party vendors. Although there are a limited number of vendors capable of supplying these components, management believes that other suppliers could provide similar components on comparable terms. A change in suppliers, however, could cause a delay in system implementations and a possible loss of revenues, which could adversely affect operating results.

OTHER CURRENT ASSETS

Other current assets are primarily: prepaid loan fees, insurance, commissions and maintenance, deposits and prepaid expenses related to future revenues.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line, half year convention method (except for service bureau operations which begins depreciation of computer equipment and software when the assets are placed in service), over the estimated useful lives of the related assets. Estimated useful lives are as follows:

Computer equipment and software	3-4 years
Office equipment	5 years
Office furniture and fixtures	7 years
Leasehold improvements	Life of lease

Depreciation expense for 1998, 1997 and 1996 was $1,758,264, $875,370 and $373,452, respectively.

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Software development costs are accounted for in accordance with Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Software to be Sold, Leased or Otherwise Marketed. Costs associated with the planning and designing phase of software development, including coding and testing activities necessary to establish technological feasibility are classified as product research and development and are expensed as incurred. Once technological feasibility has been determined, a portion of the costs incurred in development, including coding, testing and product quality assurance, are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. The Company capitalized $396,000, $396,000 and $170,000 in 1998, 1997 and 1996, respectively. Research and development expense was $3,740,215, $5,553,778 and $1,580,089 in 1998, 1997 and 1996, respectively.

Amortization is provided on a product-by-product basis over the estimated economic life of the software, not to exceed three years, using the straight-line method. Amortization commences when a product is available for general release to customers. Unamortized capitalized costs determined to be in excess of the net realizable value of a product are expensed at the date of such determination. Amortization expense was $258,332, $128,333 and $78,000 in 1998, 1997 and 1996, respectively.

ACCRUED OTHER EXPENSES

Accrued other expenses at January 31, 1999 and 1998 include: warranty reserves and accrued franchise and property taxes and professional fees.

RESTRUCTURING EXPENSE

During the second quarter of fiscal 1998, the Company restructured certain aspects of its operations to flatten the management structure, reduce expenses in all areas and, at the same time, improve customer service. Accordingly, the Company accrued $300,000 for the anticipated costs of severance and related taxes and fringe benefits for the reduction of the work force by 16 people. The liability was recorded as a current liability at the end of the second quarter and substantially all of the liability was paid during the third quarter. As LanVision has completed certain of its major software development projects, the Company has been able to further reduce its staff and the use of outside contractors in product development. As a result of the above reductions in staff, the Company has excess space at certain facilities. Accordingly, a fourth quarter restructuring charge of $400,000 was accrued to downsize the existing facilities to the current and anticipated near term needs. The Company has engaged brokers to sublease or terminate long-term lease commitments at certain facilities.

INCOME TAXES

The provisions for income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

STOCK OPTIONS

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, was effective beginning with fiscal year 1996. The Statement establishes a fair value method of financial accounting and reporting for stock-based compensation plans. The Company elected to continue to account for stock options under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and, accordingly, has adopted the disclosure only provisions of Statement 123.

NET (LOSS) PER COMMON SHARE

The net (loss) per common share is computed in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share. The basic net (loss) per common share is computed based on the weighted average number of common shares outstanding during each period. The diluted net (loss) per common share reflects the potential dilution that could occur if Stock Options and Warrants were exercised into Common Stock, under certain circumstances, that then would share in the earnings of the Company. The diluted net (loss) per common share calculation, in fiscal 1998, 1997 and 1996, excludes the effect of the Stock Options and Warrants as the inclusion thereof would be antidilutive.

2. OPERATING LEASES

The Company rents office space and equipment under noncancelable operating leases that expire in 2003. Future minimum lease payments under noncancelable operating leases for the next five fiscal years are as follows: 1999: $850,352; 2000: $605,140; 2001: $450,398; 2002: $154,589; and 2003: $48,532. Rent expense was $812,470, $637,110 and $252,383 for fiscal years 1998, 1997 and 1996, respectively.

3. LONG-TERM DEBT

In July, 1998, the Company issued a $6,000,000 note to The HillStreet Fund, L.P., which bears interest at 12%, payable monthly. The note is repayable in quarterly installments of $500,000 commencing October, 2001 through July, 2004. In July, 2002, the Company has a one-time option to prepay, in full, the then outstanding balance of the note. The note is secured by all of the assets of the Company and the loan agreement restricts the Company from incurring additional indebtedness for borrowed money, including capitalized leases, limits certain investments, restricts substantial asset sales, capital expenditures, cash dividends, stock repurchases and mergers and consolidations with unaffiliated entities. In addition, the Company is required to maintain certain financial conditions, including minimum levels of revenues, combined cash and investments and net worth.

In connection with the issuance of the note, the Company issued Warrants to purchase 750,000 shares of Common Stock of the Company at $3.87 per share at any time after May 16, 1999 through July 16, 2008. The Warrants are subject to the customary antidilution and registration rights provisions.

Under the terms of the loan agreement, the Company has guaranteed the lender that the increase in the market value of the stock underlying the Warrants, at the time of loan maturity, over the exercise price plus the 12% interest paid on the loan will yield the lender a 25% compound annual return. If the yield from the Warrants plus interest paid does not provide the lender with the guaranteed return, the Company is required to pay the additional amount in cash at the time of maturity. Accordingly, the Company is accruing interest on the loan at a 25% compound interest rate, regardless of the market value of the stock and the inherent value of the Warrants. Should the Company exercise its prepayment option in July, 2002, then the minimum guaranteed rate of return is increased to 30%.

However, to the extent that the computed minimum compound annual rate of return exceeds 30% at the date of the prepayment, the Company has the right to cancel up to 150,000 Warrants.

In addition, the founders and majority shareholders of the Company have consented to certain restrictions on the sale or transfer of their shares.

Maturities of long-term debt are as follows: fiscal years 1999 and 2000, $-0-; 2001, $1,000,000; 2002, $2,000,000; 2003, $2,000,000; 2004, $1,000,000.

Management believes the fair market value of the long-term debt and its accompanying Warrants approximates the carrying value.

The Company was in compliance, or has obtained waivers for non-compliance, with all of the amended terms and conditions of the loan agreement as of January 31, 1999.

4. INCOME TAXES

The Company had no income tax expense or (benefit) for 1998, 1997 and 1996.

The (benefit) expense for income taxes differs from the Federal statutory rate as follows:

	Fiscal Year		
	1998	1997	1996
Federal tax (benefit) expense at statutory rate	$ (3,714,830)	$ (4,307,613)	$ (1,587,304)
(Loss) for which benefit not provided	3,714,830	4,307,613	1,587,304
	$ --	$ --	$ --

The Company provides deferred income taxes for temporary differences between assets and liabilities recognized for financial reporting and income tax purposes. The income tax effects of these temporary differences are as follows:

	Fiscal Year		
	1998	1997	1996(1)
Deferred tax assets:			
Net operating (loss) carryforwards	$ 9,576,271	$ 6,061,074	$ 2,352,493
Accounts payable and accrued liabilities	1,102,738	849,876	1,064,764
Other	156,280	98,050	185,290
	10,835,289	7,009,000	3,602,547
Less valuation allowance	(10,835,289)	(6,991,066)	(1,989,722)
Net deferred tax assets	--	17,934	1,612,825
Deferred tax liabilities:			
Accounts and unbilled receivables	--	--	(1,311,369)
Capitalized software costs	--	--	(90,416)
Prepaid assets	--	--	(204,482)
Equipment	--	(17,934)	(6,558)
	--	(17,934)	(1,612,825)
	$ --	$ --	$ --

(1) Calculations based on a cash basis tax return for fiscal year 1996.

At the end of fiscal 1998, the Company had a net operating (loss) carryforward of approximately $25,900,000, which begins to expire in 2009.

5. RETIREMENT PLAN

The Company has established a 401(k) retirement plan that covers substantially all employees. Company contributions to the plan may be made at the discretion of the Board of Directors. To date, no Company contributions have been made to the plan.

6. MAJOR CUSTOMERS

During fiscal 1998, three customers accounted for 10%, 9% and 8% of total revenues. During fiscal 1997, three customers accounted for 13%, 13% and 12% of total revenues. During fiscal year 1996, three customers accounted for 21%, 17% and 11% of total revenues. At January 31, 1999 and 1998, 42% and 44%, respectively, of the Company's accounts receivable were due from three customers.

7. STOCK OPTION PLANS

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, in accounting for its stock options because, as discussed below, the alternative fair value method of accounting provided for under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing stock options. Accordingly, the Company adopted the disclosure only provisions of Statement 123. All of the Company's stock options have been issued with an exercise price equal to the estimated fair market value of the underlying stock at the date of grant. Accordingly, under Opinion 25, no compensation expense is recognized.

The Company's Employee Stock Option Plan authorizes the grant of options to employees for up to 825,000 shares of the Company's Common Stock. The options granted have terms of ten years or less and generally vest and become fully exercisable ratably over three years of continuous employment from the date of grant, except with respect to 28,875 options which were granted in fiscal 1995, and became fully vested and exercisable on December 1, 1996. At January 31, 1999, options to purchase 593,652 shares of the Company's Common Stock have been granted under the Plan.

The Company's Non-Employee Directors Stock Option Plan authorizes the grant of options for up to 100,000 shares of the Company's Common Stock. All options granted have terms of ten years or less and vest and become fully exercisable ratably over four years of continuous service as a Director from the date of grant. Options for 5,000 shares have been granted under this plan to one Director, of which 2,500 options are excercisable and vested. In addition, non-qualified stock options to purchase 5,000 shares were granted to the same Director in April, 1996, and vested ratably over two years.

The Company also issued non-qualified stock options to purchase 99,841 shares of the Company's Common Stock to two employees prior to the initial public offering of the Company's Common Stock. Of the total, 69,778 were granted in fiscal 1995, with a term of ten years and vest ratably over three years, commencing two years from the date of grant, and have an exercise price of $1.00 per share. The remaining 30,063 options were granted in 1990, with a term of approximately eleven years and became exercisable in 1991 with an aggregate price of $1.00.

Pro forma information regarding the net (loss) and net (loss) per common share is required by Statement 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal 1998, 1997 and 1996: risk-free interest rates of 5.0% in 1998, 5.4% in 1997 and 6.3% in 1996; a dividend yield of zero percent; a volatility factor of the expected market price of the Company's Common Stock of .911 in 1998, .788 in 1997 and .827 in 1996, and a weighted average expected life of the options of five years.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the Company's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the average vesting period of the options. The Company's pro forma information is as follows:

	Fiscal Year		
Pro forma	1998	1997	1996
Net (loss)	$ (11,110,786)	$ (13,266,041)	$ (6,276,119)
Basic net (loss) per common share	$ (1.26)	$ (1.50)	$ (.76)

The pro forma disclosures are not likely to be representative of the effects on earnings reported for future years.

A summary of the Company's stock option activity and related information is as follows:

	Fiscal Year					
	1998		1997		1996	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding - beginning of year	701,248	$ 7.78	650,873	$ 8.84	527,018	$ 8.21
Granted	248,000	3.01	166,500	5.32	141,840	11.40
Forfeited	(245,755)	7.97	(116,125)	10.34	(17,985)	10.40
Outstanding - end of year	703,493	6.04	701,248	7.78	650,873	8.84
Exercisable at end of year	378,053	$ 7.61	387,217	$ 8.02	299,605	$ 9.36
Weighted average fair value of options granted during year	$ 2.19		$ 3.51		$ 7.87	

The following table summarizes, by range of exercise price, the options as of January 31, 1999:

Options		Weighted average exercise price	Approximate remaining life in years
Outstanding	Exercisable		
30,063	30,063	$ - (1)	2
69,778	59,778	1.00(2)	6
603,652	288,212	6.93(3)	9
703,493	378,053	6.04	

(1) $1.00 in the aggregate for all 30,063 options.
(2) $1.00 per share for each of the 69,778 options.
(3) The exercise prices range from $2.87 to $14.50, of which 266,652 shares are between $10.40 and $14.50 per share and 141,000 shares are between $4.00 and $7.38 per share and 196,000 shares at $2.88 per share.

Exercise prices for options outstanding as of January 31, 1999 ranged from $1.00 in the aggregate for 30,063 options to $14.50 per share. The weighted average remaining contractual life of these options is approximately nine years.

The Employee Stock Option Plan contains change of control provisions whereby any outstanding options subject to vesting which have not fully vested as of the date of the change in control shall automatically vest and become immediately exercisable. One of the change in control provisions is deemed to occur if there is a change in beneficial ownership, or authority to vote, directly or indirectly, securities representing 20% or more of the total of all of the Company's then outstanding voting securities, unless through a transaction arranged by, or consummated with the prior approval of the Board of Directors. Other change in control provisions relate to mergers and acquisitions or a determination of change in control by the Company's Board of Directors.

Awad Asset Management, Inc. has advised the Company that it has acquired, in the open market, 1,449,950 shares or 16.45% of the total outstanding shares of the Company. Based on 8,814,520 shares outstanding as of January 31, 1999, should an additional 312,954 shares or 3.55%, be acquired by Awad Asset Management, Inc., all of the then outstanding and non-vested options under the Employee Stock Option Plan would immediately vest.

8. STOCK PURCHASE PLAN

The Company has an employee stock purchase plan under which employees may purchase up to 500,000 shares of Common Stock. Under the plan, eligible employees may elect to contribute, through payroll deductions, up to 10% of their base pay to a trust during any plan year, July 1 through June 30, of the following year. At June 30 of each year, the plan acquires for the benefit of the employees shares of Common Stock at the lesser of (a) 85% of the Fair Market Value of the Common Stock on July 1, of the prior year, or (b) 85% of the Fair Market Value of the Common Stock on June 30, of the current year.

During fiscal year 1998, 8,520 shares were purchased at the price of $3.77 per share.

The purchase price at June 30, 1999, will be 85% of the lower of (a) the closing price on July 1, 1998 ($4.25) or (b) 85% of the closing price on June 30, 1999.

9. COMMITMENTS AND CONTINGENCIES

MAINTENANCE AGREEMENTS

The Company has maintenance agreements to provide services in future periods after the expiration of an initial warranty period. The Company invoices customers in accordance with the agreements and records the invoicing as deferred revenues and recognizes the revenues ratably over the term of the maintenance agreements. The Company warrants to customers that its software will meet certain performance requirements and has warranted, to certain customers, that its software will be Year 2000 Compliant.

SERVICE BUREAU OPERATIONS

The Company enters into long-term agreements to provide document imaging/management and workflow services to its healthcare customers on an outsourced basis from its central data center.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with its officers and employees that generally provide annual salary, a minimum bonus, discretionary bonus, stock incentive provisions and severance arrangements.

RESERVED COMMON STOCK

The Company has reserved 1,529,841 shares of the Common Stock authorized for issuance in connection with various Stock Option and Purchase Plans, and 750,000 shares for the Warrants issued in connection with the long-term debt.

10. COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, Comprehensive Income, requires supplemental disclosure for the accounting for unrealized holding gains on available-for-sale securities, and a reconciliation to comprehensive income (loss).

	Fiscal Year		
	1998	1997	1996
Net (loss)	$(10,925,970)	$(12,669,451)	$ (4,668,540)
Unrealized holding gains (losses) arising during the period	(9,570)	147,295	90,848
Reclassification adjustment for gains (losses) included in net (loss)	(65,633)	(152,698)	(10,242)
Comprehensive (loss)	$(11,001,173)	$(12,674,854)	$ (4,587,934)

11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following sets forth selected quarterly financial information for fiscal years 1998, 1997, and 1996.

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	1998
Revenues	$ 3,605	$ 3,008	$ 2,836	$ 2,561	$ 12,010
Operating (loss)	(3,239)	(2,938)	(1,815)	(2,468)	(10,460)
Net (loss)	(3,136)	(2,911)	(2,111)	(2,768)	(10,926)
Basic and diluted net (loss) per share (a)	(.36)	(.33)	(.24)	(.31)	(1.24)
Weighted average shares outstanding	8,806	8,809	8,815	8,815	8,811
Stock Price (c)					
High	$ 5.87	$ 4.62	$ 3.37	$ 3.25	$ 5.87
Low	$ 3.62	$ 2.50	$ 0.87	$ 0.90	$ 0.87
Quarter-end close	$ 4.50	$ 3.00	$ 1.25	$ 2.71	$ 2.71
Cash dividends declared (d)	$ --	$ --	$ --	$ --	$ --

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	1997
Revenues	$ 2,113	$ 1,569	$ 2,329	$ 2,665	$ 8,676
Operating (loss)	(3,176)	(3,815)	(2,951)	(3,876)	(13,818)
Net (loss)	(2,846)	(3,530)	(2,664)	(3,629)	(12,669)
Basic and diluted net (loss) per share (a)	(.32)	(.40)	(.30)	(.41)	(1.44)
Weighted average shares outstanding	8,886	8,813	8,806	8,806	8,827
Stock Price (c)					
High	$ 8.00	$ 6.75	$ 8.00	$ 6.75	$ 8.00
Low	$ 3.37	$ 4.50	$ 4.62	$ 4.25	$ 3.37
Quarter-end close	$ 4.50	$ 5.25	$ 6.03	$ 4.62	$ 4.62
Cash dividends declared (d)	$ --	$ --	$ --	$ --	$ --

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	1996
Revenues	$ 2,113	$ 3,370	$ 3,035	$ 1,792	$ 10,310
Operating (loss)	(701)	(609)	(1,636)	(3,015)	(5,961)
Net (loss)	(780)	(139)	(1,179)	(2,571)	(4,669)
Basic and diluted net (loss) per share (a)	(.12)	(.02)	(.13)	(.29)	(.56)
Weighted average shares outstanding	6,405	8,896	8,896	8,896	8,284
Stock Price (b) (c)					
High	$ 18.75	$ 18.75	$ 14.50	$ 9.00	$ 18.75
Low	$ 14.50	$ 8.50	$ 7.75	$ 6.25	$ 6.25
Quarter-end close	$ 18.37	$ 9.50	$ 8.62	$ 7.12	$ 7.12
Cash dividends declared (d)	$ --	$ --	$ --	$ --	$ --

(a) Quarterly amounts may not be additive.
(b) The Company began trading on The Nasdaq Stock Market on April 18, 1996, the date of the initial public offering.
(c) Obtained from The Nasdaq Stock Market, Inc.
(d) The Company has not paid a dividend on its Common Stock since its inception and does not intend to pay any cash dividends in the foreseeable future.

DIRECTORS AND OFFICERS

- --

DIRECTORS

George E. Castrucci(1) (2)*
Retired Chief Executive Officer
Great American Broadcasting Company

Eric S. Lombardo
Executive Vice President
LanVision Systems, Inc.

J. Brian Patsy
Chairman of the Board and Chief Executive Officer
LanVision Systems, Inc.

Z. David Patterson(1)* (2)
Executive Vice President
Blue Chip Venture Company

(1) Audit Committee
(2) Compensation Committee
* Committee Chairman

OFFICERS

J. Brian Patsy
Chairman of the Board, Chief Executive Officer
and President

Eric S. Lombardo
Executive Vice President
President, Virtual Healthware Services Division
Corporate Secretary

Thomas E. Perazzo
Chief Operating Officer, Chief Financial Officer
and Treasurer

CORPORATE INFORMATION

- --

Corporate Headquarters
LanVision Systems, Inc.
One Financial Way, Suite 400
Cincinnati, Ohio 45242-5859
(513) 794-7100

Stock Transfer Agent
Fifth Third Bank
Corporate Trust Administration
Fifth Third Center
Mail Location 1090D2
Cincinnati, Ohio 45263

Independent Auditors
Ernst & Young LLP
Cincinnati, Ohio

Annual Meeting
The Annual Meeting of Stockholders will be held on May 26, 1999.

Form 10-K and Investor Contact

The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available without charge to stockholders and investment professional securities analysts upon written requests. These requests should be directed to: Investor Relations at the Corporate Headquarters.

Common Stock
The Company's common stock trades on The Nasdaq Stock Market under the symbol LANV.

As of March 31, 1999, there were approximately 2,300 stockholders

LanVision Systems, Inc. World Wide Web Site
Visit us at - http://www.lanvision.com

[LOGO]

LanVision(TM)
Healthcare Information Access Systems

LANVISION SYSTEMS, INC.
ONE FINANCIAL WAY, SUITE 400
CINCINNATI, OH 45242-5859
PHONE: 513.794.7100, FAX: 513.794.7272

Exhibit 21.1
LANVISION SYSTEMS, INC.

SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction of Incorporation	% Owned
LanVision, Inc.	Ohio	100%

Exhibit 23.1
LANVISION SYSTEMS, INC.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report on Form 10-K of LanVision Systems, Inc. of our report dated March 9, 1999, included in the 1998 Annual Report to Stockholders of LanVision Systems, Inc.

Our audits also included the financial statement schedule of LanVision Systems, Inc. listed in Item 14. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule, referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following Registration Statements and related prospectuses of LanVision Systems, Inc. of our report dated March 9, 1999, with respect to the consolidated financial statements and schedule of LanVision Systems, Inc. incorporated by reference in the Annual Report on Form 10-K for the year ended January 31, 1999.

Form	Registration No.	Description
S-8	333-28055	1996 Employee Stock Purchase Plan
S-8	333-18625	1996 Employee Stock Option Plan
S-8	333-20765	1996 Non-Employee Directors Stock Option Plan
S-8	333-20761	Robert F. Golden and Jeffrey L. VanVoorhis Option Agreements (As Amended)
S-8	333-20763	George E. Castrucci Option Agreement

Cincinnati, Ohio
April 23, 1999

/ s / Ernst & Young LLP

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S CONSOLIDATED FINANCIAL STTEMENTS CONTAINED IN THE COMPANY'S FORM 10-K FOR THE PERIOD ENDED JANUARY 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1

12-MOS
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FEB-01-1998
JAN-31-1999
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