UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2001

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.)

5481 Creek Road
Cincinnati, Ohio 45242-4001
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Number of shares of Registrant's Common Stock ($.01 par value per share) issued and outstanding, as of August 31, 2001: 8,894,948.

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Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

LANVISION SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

Assets

	(Unaudited) July 31, 2001	(Audited) January 31, 2001
Current assets:		
Cash and cash equivalents (restricted by long-term debt agreement)	$ 8,132,490	$ 8,549,732
Note receivable	--	75,000
Accounts receivable, net of allowance for doubtful accounts of $400,000, respectively	883,054	2,080,154
Unbilled receivables	1,818,034	1,356,413
Prepaid expenses related to unrecognized revenue	167,481	146,428
Other	279,304	220,861
Total current assets	11,280,363	12,428,588
Property and equipment:		
Computer equipment	2,847,952	2,715,246
Computer software	562,923	501,077
Office furniture, fixtures and equipment	1,139,457	1,233,175
Leasehold improvements	117,795	114,965
	4,668,127	4,564,463
Accumulated depreciation and amortization	(4,027,709)	(3,857,871)
	640,418	706,592
Capitalized software development costs, net of accumulated amortization of $1,550,228 and $1,400,228, respectively	1,089,701	989,701
Other	255,481	233,235
	$ 13,265,963	$ 14,358,116

See Notes to Condensed Consolidated Financial Statements.

LANVISION SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

Liabilities, Convertible Redeemable Preferred Stock and Stockholders' Equity

	(Unaudited) July 31, 2001	(Audited) January 31, 2001
Current liabilities:		
Accounts payable	$ 265,273	$ 464,615
Accrued compensation	266,565	306,180
Accrued other expenses	1,624,342	1,733,631
Deferred revenues	1,375,129	1,755,938
Current portion of long-term debt	2,000,000	1,000,000
Total current liabilities	5,531,309	5,260,364
Long-term debt	4,000,000	5,000,000
Long-term accrued interest	1,528,105	1,442,285
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	34,774,070	34,829,406
Treasury stock, at cost, 1,552 and 17,259 shares, respectively	(7,383)	(82,038)
Accumulated (deficit)	(32,649,103)	(32,180,866)
Total stockholders' equity	2,206,549	2,655,467
	$ 13,265,963	$ 14,358,116

See Notes to Condensed Consolidated Financial Statements.

LANVISION SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three and Six Months Ended July 31,

(Unaudited)

	Three Months Ended		Six Months Ended	
	2001	2000	2001	2000
Revenues:				
Systems sales	$ 419,521	$ 607,874	$ 1,476,501	$ 878,935
Services, maintenance and support	1,475,716	1,490,391	2,940,023	2,829,606
Service bureau operations	203,666	199,367	394,782	401,829
Total revenues	2,098,903	2,297,632	4,811,306	4,110,370
Operating expenses:				
Cost of systems sales	158,147	269,683	308,578	441,619
Cost of services, maintenance and support	829,926	905,686	1,624,316	1,833,790
Cost of service bureau operations	87,042	82,643	172,547	190,482
Selling, general and administrative	777,022	914,451	1,645,936	1,753,959
Product research and development	385,747	459,578	725,950	926,949
Total operating expenses	2,237,884	2,632,041	4,477,327	5,146,799
Operating income (loss)	(138,981)	(334,409)	333,979	(1,036,429)
Other income expense:				
Interest income	73,480	127,148	177,912	231,860
Interest expense	(504,277)	(460,367)	(980,128)	(900,948)
Other income, net	--	28,802	--	1,381,520
Net (loss)	$ (569,778)	$ (638,826)	$ (468,237)	$ (323,997)
Basic net (loss) per common share	$ (.06)	$ (.07)	$ (.05)	$ (.04)
Diluted net (loss) per common share	$ (.06)	$ (.07)	$ (.05)	$ (.04)
Number of shares used in per common share computations	8,884,534	8,855,218	8,881,931	8,851,715

See Notes to Condensed Consolidated Financial Statements.

LANVISION SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended July 31,

(Unaudited)

	2001	2000
Operating activities:		
Net (loss)	$ (468,237)	$ (323,997)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:		
(Gain) on sale of property and equipment, net	--	(1,431,763)
Depreciation and amortization	361,809	492,603
Increase in long-term accrued interest	85,820	504,640
Cash provided by (used for) assets and liabilities:		
Accounts and unbilled receivables	735,479	2,222,022
Other current assets	(79,496)	668
Accounts payable and accrued expenses	(348,246)	(450,888)
Deferred revenues	(380,809)	(698,119)
Net cash (used for) provided by operating activities	(93,680)	315,166
Investing activities:		
Proceeds from disposal of property and equipment	56,301	2,057,000
Purchases of property and equipment	(201,936)	(61,764)
Capitalization of software development costs	(250,000)	(210,000)
Payment on note receivable	75,000	375,000
Other	(22,246)	13,903
Net cash (used for) provided by investing activities	(342,881)	2,174,139
Financing activities:		
Sale of treasury stock to employee stock purchase plan	19,319	21,357
Net cash provided by financing activities	19,319	21,357
(Decrease) increase in cash and cash equivalents	(417,242)	2,510,662
Cash and cash equivalents at beginning of period	8,549,732	5,411,920
Cash and cash equivalents at end of period	$ 8,132,490	$ 7,922,582
Supplemental cash flow disclosures:		
Interest paid	$ 862,000	$ 364,000

See Notes to Condensed Consolidated Financial Statements.

LANVISION SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by the Company without audit, in accordance with accounting principles generally accepted in the United States for interim financial information, pursuant to the rules and regulations applicable to quarterly reports on Form 10-Q of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the LanVision Systems, Inc. Annual Report on Form 10-K, Commission File Number 0-28132. Operating results for the three and six months ended July 31, 2001, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2002.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies is presented beginning on page 20 of its 2000 Annual Report to Stockholders. Users of financial information for interim periods are encouraged to refer to the footnotes contained in the Annual Report to Stockholders when reviewing interim financial results. There has been no material change in the accounting policies followed by the Company during fiscal year 2001.

Note 3 - CHANGES IN BALANCE SHEET ACCOUNT BALANCES

The decrease in cash and cash equivalents results primarily from the payment of $500,000 in long-term accrued interest on the outstanding debt, the purchase of fixed assets and a reduction in deferred revenues and accounts payable, offset to some extent by the decrease in accounts receivable during the first six months.

The decrease in accounts receivable, net is due to higher collections, during the second quarter.

The increase in unbilled receivables represents primarily amounts recorded as revenue during the first quarter but prior to progress billing customers or receiving payment from remarketing partners.

Other current assets consist of software and hardware awaiting installation (related to unrecognized revenue) and prepaid expenses, including commissions.

The increase in property and equipment, net, is primarily the result of the acquisition of computer equipment and software necessary to support current customers.

Other non-current assets consist primarily of prepaid long-term debt closing costs, which are amortized to expense over the life of the loan.

The decrease in accounts payable results primarily from the payment of accounts when due.

The decrease in accrued compensation results primarily from the decrease in the accrual for second quarter bonuses payable under the employee bonus plans because the second quarter operating performance of the company did not meet the plan targets.

The decrease in accrued other expenses relates to the settlement of certain obligations during the quarter.

The decrease in deferred revenues results from the recognition of revenue related to billings to customers recorded prior to revenue recognition.

The increase in long-term accrued interest is net of a special payment of $500,000 of such interest at the time the loan agreement was amended, during the first quarter, to set the financial covenants for fiscal 2001.

Note 4 - STOCK OPTIONS

During the first six months of the current fiscal year, the Company granted 10,000 stock options under the 1996 Employee Stock Option Plan at an exercise price of approximately $0.87 per share. During the same period 11,000 options were forfeited under all plans. No stock options were exercised during the quarter or first six months.

Note 5 - EARNINGS PER SHARE

The basic net income per common share is calculated using the weighted average number of common shares outstanding during the period.

The diluted net income per common share calculation excludes the effect of the common stock equivalents (stock options and warrants), as the inclusion thereof would be antidilutive.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information contained herein, this Discussion and Analysis, as well as other Items in this Form 10-Q, 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, included herein. These risks and uncertainties include, but are not limited to, the impact of competitive products and pricing, product demand and market acceptance, new product development, key strategic alliances with vendors that resell LanVision products, the ability of the Company to control costs, availability of products produced from third party vendors, the healthcare regulatory environment, healthcare information systems budgets, availability of healthcare information systems trained personnel for implementation of new systems, as well as maintenance of legacy systems, fluctuations in operating results and other risks detailed from time to time in the LanVision Systems, Inc. filings with the United States Securities and Exchange Commission. 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 Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

GENERAL

LanVision is an Application Service Provider (ASP) and a leading supplier of Healthcare Information Access Systems software specializing in connectivity solutions that utilize the power of the Internet/Intranet to link hospitals, physicians, patients and payers to a robust Electronic Medical Record. The Company's products are complementary to existing clinical and financial systems, and use document imaging and workflow tools to ensure end-users can electronically access all the various forms of healthcare information including clinician's handwritten notes, lab reports, photographs, insurance cards, etc. LanVision's solutions offer value to all of the constituents in the healthcare delivery process by enabling them to simultaneously access information from virtually any location, including the physician's desktop, using thin client, web browser-based technology. Web access to the entire medical record improves physician productivity and reduces administrative costs such as filing, storage, retrieval and upkeep of medical records and clinical costs, such as redundant diagnostic testing. The system enables healthcare providers to access, on a real-time basis, all the various forms of clinical and financial patient information from a single permanent healthcare 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 Siemens Medical Solutions Health Services Corporation and Cerner Corporation. 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.

Historically, the Company has derived its revenues from system sales involving the licensing, either directly or through remarketing partners, of its Electronic Medical Record solution to Integrated Healthcare Delivery Networks (IDN). In a typical transaction, the Company, or its remarketing partners, enter into a term, perpetual or fee-for-service agreement for the Company's Electronic Medical Record Software Suite and may license or sell other third party software and hardware components to the IDN. Additionally, the Company, or its remarketing partners provide professional services, including implementation, training and product support.

With respect to systems sales, the Company earns its highest margins on proprietary LanVision software or ASP services and the lowest margins 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.

Beginning in 1998, the Company began offering customers the ability to obtain its Electronic Medical Record solution on a service bureau basis as an ASP. The Company's ASP division, called ASPeN(SM) (Application Service Provider eHealth Network), established a centralized data center and installed the Company's Electronic Medical Record suite, within the data center. Under this arrangement, customers electronically capture information and transmit the data to the centralized data center. The ASP Division stores and manages the data using LanVision's Electronic Medical Record Suite of Applications, and customers can view, print or fax the information from anywhere using the LanVision Web browser-based applications. The ASP division charges and recognizes revenue for these services on a per transaction or subscription basis as information is captured, stored, and retrieved.

In February 2000, the Company sold its centralized data center for $2,900,000. Simultaneous therewith, the Company entered into a one-year service agreement with the buyer. Under the terms of this service agreement, which can be renewed at the sole option of the Company, in exchange for processing fees, the Company will continue to use the data center to provide ASP services to LanVision's current and future customers. The agreement has been renewed through February 2002. Although LanVision sold the data center assets, the Company continues to market and provide its ASP solutions through the data center and intends to utilize other data center service providers.

In August 2000, LanVision entered into an agreement with SmartHealth Services, Inc. (SmartHealth), which allows SmartHealth to utilize LanVision's MicroVision(TM) Electronic Medical Record (EMR) product combined with web-based SmartHealth software to provide affordable, web-based EMR document management and viewing services to hospitals and clinics via the Internet. SmartHealth Services, Inc., in conjunction with its affiliate, Alpharetta, Georgia based Smart Professional Photocopy Corporation, d/b/a Smart Corporation, and distributes their services through Smart Corporation's extensive sales distribution network which currently consists of over 1,000 hospitals and 4,600 clinic customers throughout 46 states. LanVision is compensated for use of its software based upon the number of EMR images SmartHealth scans and stores using the MicroVision(TM) ASP application. LanVision has not received any substantial revenues from SmartHealth to date, and LanVision is uncertain about future revenues in light of a current contractual dispute with SmartHealth regarding licensing revenues.

In November 2000, LanVision entered into an agreement with Provider HealthNet Services Inc. (PHNS) a privately held, Dallas, TX based company, which allows PHNS to offer LanVision's MicroVision EMR product to provide EMR document management and viewing services to PHNS' customer base. PHNS is a healthcare industry information technology and business outsourcing company, which provides information technology and professional management of information systems, medical records and related business processes to hospitals and other healthcare providers on a shared basis to improve healthcare services and reduce costs. The relationship with LanVision will allow PHNS to more effectively use information technology and the LanVision document imaging and management solution for medical records and other business processes to improve healthcare services and reduce costs for its customers. The LanVision ASP services allows PHNS to offer a state-of-the-art, Application Service Provider-based EMR solution, an offering that contributes to increased process efficiency for medical records functions. The LanVision services to be provided by PHNS will be delivered on an ASP basis through a centralized data center staffed by seasoned information technology professionals with healthcare experience. LanVision will be compensated by PHNS for use of its software based upon the number of encounters, or patient visits, to each hospital using the LanVision EMR software. To date, LanVision has recorded no revenues from PHNS and cannot currently predict when, if ever, revenues will be generated from this agreement. The LanVision \ PHNS agreement contains a provision which enables LanVision or PHNS to terminate the agreement should certain financial targets not be met by November 6, 2001. LanVision does not anticipate that the financial targets will be met.

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 perpetual or term license fee that is adjusted depending on the number of concurrent users or 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. Alternatively, with the Company's ASP services, the agreements generally provide for utilizing the Company's software and third party software on a fee per transaction or subscription 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 ASP 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.

The Company's ASP Division was 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. Customers pay for such services on a transaction or subscription basis, and the centralized data center application is operated and maintained by LanVision personnel and/or its agents. In 1999, the ASP Division signed a four-year contract with The Health Alliance of Greater Cincinnati, a group of five hospitals in the Greater Cincinnati Area, to provide outsourced data center operations of its LanVision Electronic Medical Record System. Management believes more IDN's will utilize this type of ASP application. Additionally, the Company believes its business model is especially well suited for the ambulatory marketplace. LanVision is actively pursuing remarketing agreements with Healthcare Information Systems providers to distribute the Company's ASP solutions.

In 1998, the Company entered into a five-year Remarketing Agreement Siemens Medical Solutions Health Services Corporation (SMS). Under the terms of the agreement, SMS was granted an exclusive worldwide license to distribute ChartVision(R), On-Line Chart Completion(TM), WebView(TM) and Enterprisewide Correspondence(TM) 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.

Under the terms of the agreement, SMS remits royalties to LanVision based upon SMS sublicensing the Company's software to SMS's customers. Generally, twenty-five percent of the royalty is due 30 days following the end of the quarter in which SMS executes the end user license agreement with its customer. LanVision recognizes this revenue upon receipt of the royalty statement. Generally, the remaining 75% of the royalty is due 30 days following the end of the quarter in which SMS commences software implementation activities. The Company records this revenue when the 75% payment due from SMS is fixed and determinable, which is when the software implementation activities commence. Through July 31, 2001, SMS has sold fourteen systems to end-users.

UNEVEN PATTERNS OF QUARTERLY OPERATING RESULTS

The Company's revenues from systems sales have varied, and may continue to vary, significantly from quarter-to-quarter as a result of the volume and timing of systems sales and delivery. Professional services revenues also fluctuate from quarter to quarter as a result of the timing of the installation of software and hardware, project management and customized programming. Revenues from maintenance services do not fluctuate significantly from quarter to quarter, but have been increasing as the number of customers increase. Revenues from ASP Service Bureau operations are expected to increase over time, as more hospitals outsource services to LanVision's ASP Division, or its remarketing partners begin to utilize the software, and existing customers increase the volume of documents stored on the systems, and the number of retrievals increase.

The Company's revenues and operating results may vary significantly from quarter-to-quarter as a result of a number of other factors, many of which are outside the Company's control. These factors include the relatively high purchase price of a system, unpredictability in the number and timing of systems sales, length of the sales cycle, delays in the installation process and changes in the customer's financial condition or budget and the sales activities of the remarketing partners. 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.

REVENUES

Revenues for the second fiscal quarter ended July 31, 2001, were $2,098,903, compared with $2,297,632 reported in the comparable quarter of 2000. Revenues for the six months ended July 31, 2001, were $4,811,306, compared with $4,110,370 reported in the comparable period of 2000. The decrease for the quarter is due to lower hardware and third party software revenues, which are low margin items. The increase for the first six months, primarily in the first quarter, is due to increases in LanVision software revenues from add-on sales to existing customers and implementation of existing contracts through our remarketing partner. Revenues for the first six months of fiscal 2000 and 2001 continued to be adversely affected because many healthcare organizations deferred new software purchases until final Federal Health Privacy Regulations were promulgated, to comply with the requirements of HIPAA (Health Insurance Portability and Accountability Act of 1996). Although the regulations have been promulgated, many hospitals continue to vacillate and purchase decisions for EMR products have been postponed for many reasons, including budgetary constraints.

Additionally, healthcare institutions are assessing and implementing many new technologies. Although many of these systems do not compete with LanVision products, these systems do compete for capital budget dollars and the available time of information systems personnel within the healthcare industries. However, management continues to believe that revenue from its Remarketing Agreement with SMS will increase in the future since LanVision's product has been fully integrated with the SMS product. In addition, our Web browser-based ASP application, which is currently available and in production with our customers and available, through our resellers, should further enhance revenues through software royalties to LanVision with minimal additional cost. Both our Remarketing and Reseller Agreements should represent a greater percentage of the Company's total revenues in the future.

Many healthcare organizations are beginning to plan additional information technology projects following Year 2000 remediation and in anticipation of HIPAA compliance. The HIPAA Regulations are a series of standards that are intended to regulate the way health information is secured and transmitted. A recent healthcare industry report (Fitch IBCA, Duff & Phelps) stated that in order to comply with the HIPAA healthcare information electronic transmission regulations, healthcare systems will need to adjust existing systems or purchase new information technology systems, hire and retrain staff, and make significant changes to the current processes associated with maintaining patient privacy, the cost of which is estimated to be somewhere between three to four times the amount of expenditures required for Year 2000 remediation, or an amount in excess of $25 billion. LanVision believes its highly evolved, secure and technologically advanced Web browser-based ASP solutions will position the Company to take advantage of, what we continue to believe will be, significantly increasing market opportunities for LanVision and its distribution partners in the future.

After an agreement is executed, LanVision does not record revenues until it delivers the hardware and software or performs the agreed upon services. The commencement of revenue recognition varies depending on the size and complexity of the system and the scheduling of the implementation, training, interface development and other services requested by the customer. Accordingly, significant variations in revenues can result as was more fully discussed above under "Uneven Patterns of Quarterly Operating Results." Three customers, excluding our remarketing partner SMS, accounted for approximately 25% of the revenues for the second quarter of 2001 compared with 38%, of revenues in the comparable period of the prior year. Three customers, excluding our remarketing partner SMS, accounted for approximately 27% of the revenues for the first six months of 2001 compared with 35%, of revenues in the comparable period of the prior year. Revenue from SMS accounted for approximately $341,000 and $945,000, for the three months and six months, respectively, ended July 31, 2001, compared with approximately $262,000 and $434,000 for the three months and six months, respectively, in the comparable periods of the prior year. The increase in SMS revenue results from increased software implementations in the current periods compared with the prior comparable periods.

OPERATING EXPENSES

Cost of Systems Sales

The cost of systems sales includes amortization of capitalized software development costs on a straight-line basis, royalties and the cost of third party software and hardware. Cost of systems sales as a percentage of systems sales may vary from period to period depending on the mix of hardware and software of the systems or add-on sales delivered. The cost of systems sales as a percentage of systems sales for the second quarter and first six months of fiscal 2001 were 38% and 21%, respectively. The cost of systems sales as a percentage of systems sales for the second quarter and first six months of fiscal 2000 were 44% and 50%, respectively. The lower percentage of cost of sales reflects higher margins on greater volume of LanVision software revenues and less hardware sold during the current periods compared to the comparable prior periods, which had lower software revenues.

Cost of Services, Maintenance and Support

The cost of services, maintenance and support includes compensation and benefits for support and professional services personnel and the cost of third party maintenance contracts. As a percentage of services, maintenance and support revenues, the cost of such services, maintenance and support was 56% and 55% for the second quarter and first six months, respectively, of fiscal 2001. As a percentage of services, maintenance and support revenues, the cost of such services, maintenance and support was 61% and 65% for the second quarter and first six months, respectively, of fiscal 2000. The Company's support margins are highest on LanVision's proprietary software. Accordingly, margins are expected to improve as more customers are added. The support costs declined in the current periods due to greater staff utilization and lower third party maintenance costs.

The LanVision Professional Services staff provides services on a time and material or fixed fee basis. The Professional Services staff periodically experiences some inefficiencies in the delivery of services, and certain projects have taken longer to complete than originally estimated, thus adversely affecting operating performance. Additionally, the Professional Services staff does spend a portion of its time on non-billable activities, such as selling additional products and services to existing clients, developing training courses and plans to move existing customers to LanVision's new product releases, etc. Management believes an increase in the number of new systems sold, and the related backlog, should improve the overall efficiency and operating performance of this group.

Cost of Service Bureau Operations

The cost of Service Bureau operations was significantly reduced with the sale of the data center. The Company now incurs expenses only for the outsourcing services it uses which are directly related to the Service Bureau Revenues generated by the ASP Division.

Selling, General and Administrative

Selling, General and Administrative expenses consist primarily of: compensation and related benefits and reimbursable travel and living expenses related to the Company's sales, marketing and administrative personnel; advertising and marketing expenses, including trade shows and similar type sales and marketing expenses; and general corporate expenses, including occupancy costs. During the second quarter of fiscal 2001, Selling, General and Administrative expenses declined to $777,022 compared with $914,451 in the comparable prior quarter, and declined in the first six months to $1,645,936 compared with $1,753,959 in the comparable prior period. The decrease in Selling, General and Administrative expenses is due to reductions in general corporate expenses. The Company has gradually reduced its direct sales staff as the Company focuses its sales efforts on indirect distribution through its current and future Remarketing, Reseller and ASP Partners. However, the Company may increase its direct sales force in the foreseeable future as market opportunities arise.

Product Research and Development

Product research and development expenses consist primarily of: compensation and related benefits; the use of independent contractors for specific development projects; and an allocated portion of general overhead costs, including occupancy. During the second quarter and first six months, research and development expenses were $385,747 and $725,950, respectively, compared with $459,578 and $926,949, respectively, in the comparable prior quarter and first six months. The decrease results primarily from lower staff costs and occupancy related expenses. The Company monitors closely its Research and Development projects, and augments, with contract programmers, its Research and Development staff, as necessary, to ensure timely completion of its development of new products or enhancements to existing products. The Company capitalized, in accordance with Statement of Financial Accounting Standards No. 86, $125,000 of product research and development costs in each of the first two quarters of fiscal

2001 and $105,000 of product research and development cost in each of the first two quarters of fiscal 2000. The capitalized costs during the first two quarters of fiscal 2001 relate primarily to LanVision's two new products, accessANYware(SM), which is in controlled general release and codingANYware(SM), which is under development.

Operating profit (loss)

The operating loss for the second quarter of fiscal 2001 was $138,981 compared with a loss of $334,409 in the second quarter of fiscal 2000. The operating profit for the first six months of fiscal 2001 was $333,979 compared to an operating loss of $1,036,429 in the comparable prior period. The 1,370,408 decrease in the operating loss results primarily from: (1) continued stringent cost controls which resulted in decreased operating expenses of approximately $670,000, and (2) increased revenues of approximately $700,000, primarily software licensing revenues.

Interest income consists primarily of interest on invested cash. The decrease in interest income results from lower interest rates.

Interest expense relates to the long-term debt.

Net loss

The net loss for the second quarter of fiscal 2001 was $569,778 ($.06 per share) compared with a net loss of $638,826 ($.07 per share) in the second quarter of fiscal 2000. The net loss for the first six months of fiscal 2001 was $468,237 ($.05 per share) compared with a net loss of $323,997 ($.04 per share) in the first six months of fiscal 2000. Excluding the gain on the sale of the data center from the first quarter of the prior year, the net loss for the first six months of fiscal 2000 would have been $1,705,517. This $1,237,280 improvement, results primarily from: (1) the continued stringent cost controls in all areas, (2) the sale of the data center which reduced the ongoing operating expenses of the ASP Division and (3) increased revenues of approximately $700,000, as discussed above.

Notwithstanding the less than anticipated number of new customer agreements signed in the past, management continues to believe that the healthcare document imaging and workflow market is going to be a significant market. Management believes it has made, and continues to make, the investments in the talent and technology necessary to establish the Company as a leader in this marketplace, and continues to believe the Company is well positioned to experience significant revenue growth primarily through third party distributors and remarketing partners.

Since commencing operations in 1989, the Company has incurred operating losses. Although the Company achieved profitability in fiscal years 1992, 1993 and 2000, the Company incurred a net loss in fiscal years 1994 through 1999. In view of the Company's prior operating history, there can be no assurance that the Company will be able to achieve consistent profitability on a quarterly or annual basis or that it will be able to sustain or increase its revenue growth in future periods. Based upon the expenses associated with current and planned staffing levels, profitability is dependent upon increasing revenues.

LIQUIDITY AND CAPITAL RESOURCES

During the last five fiscal years, LanVision has funded its operations, working capital needs and capital expenditures primarily from a combination of cash generated by operations, an initial public offering, and a $6,000,000 loan.

LanVision'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, 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.

LanVision has no significant obligations for capital resources, other than noncancelable operating leases in the total amount of approximately $205,000, payable over the next two years.

Over the last several years, LanVision's revenues were less than its internal plans. However, during the same period, LanVision has expended significant amounts for capital expenditures, product research and development, sales, support and consulting expenses. This resulted in significant net cash outlays over the last five years. Although LanVision has reduced staffing levels and related expenses, and improved operating performance, LanVision's expenses may continue to approximate or exceed its revenues. Accordingly, to achieve continuing profitability, and positive cash flow, it is necessary for LanVision to increase revenues or continue to reduce expenses. LanVision believes that the requirement for healthcare organizations to become HIPAA compliant should offer a significant opportunity to increase revenues. Additionally, the SMS Remarketing Agreement has significantly expanded the sales distribution capabilities. LanVision believes that market opportunities are such that LanVision should be able to increase its revenues. However, there can be no assurance LanVision will be able to increase its revenues.

In February 2000, LanVision sold its Data Center for $2,900,000. LanVision received $2,000,000 and the remaining $900,000 was received in twelve monthly installments. The sale resulted in a gain of approximately $1,400,000.

At July 31, 2001, LanVision had cash and cash equivalents of $8,132,490. Cash equivalents consist primarily of overnight bank repurchase agreements and short-term commercial paper. Under the terms of its loan agreement, as amended, LanVision has agreed to maintain a minimum cash and cash equivalent balance of $5,300,000. During fiscal 2001, $1,000,000 of long-term debt is required to be repaid to the lender, $500,000 quarterly, commencing October 1, 2001.

LanVision has significantly reduced its operating expenses during the last two fiscal years, and believes it will continue to improve operating results in fiscal 2001. However, based upon current expenditure levels and in the absence of increased revenues, LanVision could continue to operate at a loss. Accordingly, for the foreseeable future, LanVision 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 may 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 LanVision will be successful in any of these efforts. If it is necessary to significantly reduce operating expenses, this could have an adverse effect on future operating performance. However, at this time, LanVision believes that it should be able to increase its revenues in fiscal 2001, notwithstanding the uneven pattern of quarterly revenues as discussed above.

To date, inflation has not had a material impact on LanVision's revenues or expenses. Additionally, LanVision does not have any significant market risk exposure at July 31, 2001.

SIGNED AGREEMENTS - BACKLOG

LanVision, or its remarketing partners, enter into master agreements with their customers to specify the scope of the system to be installed and services to be provided, the agreed upon aggregate price and the timetable for implementation. The master agreement typically provides that the Company, or its remarketing partner, 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 customers will continue in the future to expand their systems and purchase additional licenses and services, LanVision believes, based on its past experience, that its customers will expand their existing systems.

At July 31, 2001, the Company's and SMS' customers had entered into master agreements for systems and services (excluding support and maintenance and transaction based revenues for the ASP Division), which had not yet been delivered, installed and accepted which, if fully performed, would generate revenue of approximately $4,562,000, compared with approximately $4,255,000 at the end of fiscal 2000. The systems and services are currently expected to be delivered over the next two to three years. In addition, the Company anticipates approximately $2,064,000 in transaction-based fee revenues for the ASP Division's current client over the remaining thirty-month life of the contract. Because systems implementations and Service Bureau ASP fees are dependent upon the customer's schedule and / or usage, the Company is unable to accurately predict 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 2000, 1999, 1998 and 1997 were approximately $3,678,000, $3,264,000, $2,755,000 and $2,151,000, respectively and are expected to increase as new or expanded systems are installed.

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 ASP Division. Therefore, LanVision is unable to accurately predict the revenues 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 a 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.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is not currently engaged in any material adverse litigation.

Item 3. DEFAULTS ON SENIOR SECURITIES

The Company is not in default under its existing Loan Agreement

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.1 Certificate of Incorporation of LanVision Systems, Inc. (*)

3.2 Bylaws of LanVision Systems, Inc. (*)

11 Computation of Earnings (Loss) Per Common Share

(*) Incorporated by reference.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements 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: September 11, 2001	By: /s/ J. BRIAN PATSY
	J. Brian Patsy Chief Executive Officer and President
DATE: September 11, 2001	By: /s/ PAUL W. BRIDGE, JR.
	Paul W. Bridge, Jr. Chief Financial Officer and Treasurer

INDEX TO EXHIBITS

EXHIBIT NO.	Exhibit
3.1	Certificate of Incorporation of LanVision Systems, Inc. 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.
3.2	Bylaws of LanVision Systems, Inc. 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.
11	Computation of Earnings (Loss) Per Common Share

Exhibit 11
LANVISION SYSTEMS, INC.

COMPUTATION OF EARNINGS (LOSS) PER COMMON SHARE

	Three Months		Six Months	
	2001	2000	2001	2000
Net income (loss)	$ (569,778)	$ (638,826)	$ (468,237)	$ (323,997)
Average shares outstanding	8,884,534	8,855,218	8,881,931	8,851,715
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	8,884,534	8,855,218	8,881,931	8,851,715
Basic net income (loss) per share of common stock	$ (0.06)	$ (0.07)	$ (0.05)	$ (0.04)
Diluted net income (loss) per share of common stock	$ (0.06)	$ (0.07)	$ (0.05)	$ (0.04)