

# STREAMLINE HEALTH SOLUTIONS INC.

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 1997

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: 0-01494*

## LANVISION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

31-1455414  
(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)

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**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 21, 1997, was \$17,202,125.00.

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of April 21, 1997: 8,861,500

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### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Annual Report to Stockholders for the year ended January 31, 1997, 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 27, 1997, 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.

This report consists of 95 pages and the Exhibit Index appears on page 27.

## 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 a difference 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.

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### PART I

#### ITEM 1. BUSINESS

##### General

LanVision Systems, Inc. ("LanVision"(TM) or the "Company") is a leading provider of healthcare information access systems that enable hospitals and integrated healthcare networks to capture, manage, store, retrieve and process vast amounts of clinical and financial patient information. The Company's systems deliver on-line enterprise-wide 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. LanVision's systems, which incorporate data management, document imaging 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. The systems are specifically designed to meet the needs of physicians and other medical and administrative personnel and can accommodate multiple users requiring simultaneous access to patient information, thereby eliminating file contention. By providing access to all forms of patient information, the Company believes that its healthcare information access systems are essential components of the computer-based patient record ("CPR").

On February 8, 1996, the Company was reorganized when LanVision Systems, Inc. was incorporated in the State of Delaware as a holding company with LanVision, Inc. as a wholly-owned operating subsidiary incorporated in 1989 in the State of Ohio. The result of the reorganization is that the stockholders of LanVision, Inc. became the owners of all the outstanding shares of LanVision Systems, Inc.'s common and preferred stock, and LanVision

Systems, Inc. became the owner of all of the outstanding shares of LanVision, Inc.'s common and preferred stock.

On April 18, 1996, the Registrant issued 2,912,500 Shares of Common Stock in an initial public offering. The net proceeds to the Company, after expenses, was \$34,304,782.

### **Industry Background**

Over the last ten years, healthcare expenditures have doubled to approximately \$1.0 trillion, and currently represent approximately 14% of the U.S. Gross Domestic Product. In response to these dramatic increases, the healthcare industry is undergoing significant change as competition and cost-containment measures imposed by governmental and private payors have created substantial 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. According to The Computer-Based Patient Record published in 1991 by The Institute of Medicine, physicians cannot gain access to medical records up to 30% of the time during 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 20,000 to 25,000 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 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 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 healthcare information systems expenditures. In a hospital survey jointly conducted by Hewlett-Packard and the Healthcare Information and Management Systems Society in February 1997, 35% of those

surveyed expected their healthcare information system budgets to increase by over 30% per year and 19% expected their budgets to increase by over 50% per year. In addition, 20% of the institutions plan to focus on clinical data repositories and 19% on electronic medical records. The Kennedy Group, a healthcare consulting firm, projected in an April, 1995, study that healthcare information technology expenditures will double or triple over five years, resulting in a total market size of \$18 to \$20 billion by the year 2000.

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 the 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.

### **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, manage, store, 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 enterprise-wide; (v) provide workflow automation to facilitate the reengineering 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 by various search criteria 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, improved predictability of patient outcomes 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.

### **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 Sales, Marketing and Distribution Channels.** In fiscal 1996, LanVision increased its sales and marketing personnel from eight to thirty and increased its advertising and other marketing activities. The planned expansion was designed to increase the Company's direct and indirect sales capabilities and expand LanVision's overall presence in the market place. The Company intends to continue to expand its direct sales operation especially in geographic areas the company is currently not present. However, the overall expansion will be at a slower pace than in 1996 and will be monitored along with the Company's assessment of market share growth opportunities. During 1996 and through April 15, 1997, the Company established strategic marketing relationships with Lanier Worldwide, Inc., 3M Health Information Systems, Daou Systems, Inc. and Crowe, Chizek and Company LLP. The Company intends to increase the number of third-party marketing reseller/referral arrangements, and increase LanVision's pre-sales support to these partners.

**Develop New Software Applications and Increase the Functionality of Existing Applications.** During 1996, the Company released new versions of ChartVision(R) with increased functionality along with MultiView(TM), an advanced ChartVision viewer providing users with a longitudinal view of patient data with multiple document display, intuitive screen flows and familiar folder and tab functionality. Also, in 1996, the Company continued development of On-Line Chart Completion(TM), an advanced application that automates the identification and processing of deficiencies in patient charts. Currently, On-Line Chart Completion is installed at two beta sites. Additionally, in 1996, the Company began development of Correspondence, an application that helps healthcare organizations quickly and efficiently complete and invoice requests for patient information from various external sources. Correspondence is scheduled to be released in the first half of fiscal 1997. The Company also continued development of OmniVision(TM), a suite of

image-enabling and workflow applications that allows physicians, clinicians and other users to access information, such as document and medical images that were previously unavailable through their existing applications. OmniVision has been ordered by several customers and will be delivered in the first half of 1997. Also, in 1996, the Company began developing version 2.0 of AccountVision(R). AccountVision 2.0 will have increased functionality and be more conducive to broad scale sales distribution. Finally, during 1996, the Company began development of WebView(TM), a product that will allow hospitals and integrated delivery networks to take advantage of the World Wide Web whereby users can immediately and simultaneously access healthcare information across the Internet with complete security and audit trail. LanVision intends to continue to expand its product development efforts and increase the functionality of existing applications along with the development of new applications using document imaging and workflow technologies.

**Image-Enable Clinical Data Repositories and Other Applications Software.** Today, health information is often stored on numerous dissimilar host-based and departmental systems that are spread throughout the 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 note. Currently, LanVision is working with several vendors to image-enable their clinical data repository systems and other applications. LanVision is marketing image-enabling through its product OmniVision, which is scheduled for delivery in the first half of 1997. LanVision intends to continue to aggressively market its unique image-enabling solutions to end users and other third-party software application providers.

**Market New Entry Level System.** Historically, LanVision has focused on large hospitals, where the initial investment by customers in LanVision's systems may exceed \$1,000,000. A study conducted in 1994 by the Rheinner Group, a consulting firm, indicated that over 60% of the document imaging market opportunities were in hospitals and clinics planning to invest less than \$500,000. To address the needs of this market segment, LanVision introduced 1stVision(TM), a pre-configured departmental ChartVision system that can be purchased for less than \$500,000 and subsequently be expanded enterprise-wide.

**Maintain Technological Leadership.** LanVision's systems use advanced client/server architecture and service some of the nation's leading healthcare providers. The Company has achieved technological leadership by designing its applications software to operate on multiple hardware platforms, operating systems, imaging engines, workflow engines and database management systems. In addition, ChartVision was designed with application program interfaces to enable third-party software applications to easily access ChartVision features and functionality. The Company intends to maintain technological leadership by continuing to apply advances in

computer software and hardware technology to the development, implementation and support of its systems.

## **Systems and Services**

LanVision's systems employ an open architecture which 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, Hewlett-Packard 9000, Sun Sparc 1000 and NCR 3000 computers. 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 those of FileNet, Kofax, and Optika. The Company's healthcare information access systems incorporate advanced features which allow customers to restrict direct access to confidential patient information, secure patient data from unauthorized indirect access and have audit trail features. Currently, the Company markets, installs and services ChartVision and AccountVision. Additionally, the Company has recently installed On-Line Chart Completion, at two beta sites and On-Line Chart Completion has been ordered by other customers but not yet delivered. Also, the Company is image-enabling certain clinical data repositories for customers that will incorporate OmniVision. Additionally, the Company has various new products and add-on modules under development. A brief description of the Company's products, including products in development, follows:

ChartVision, originally developed in 1991, is a highly-evolved electronic patient record application, that is designed to provide health information when and where it is needed. This software replaces the physical paper medical record with optical imaging technology. In addition, it has the ability to image-enable third-party applications as well as accept data from other hospital information systems. Health information traditionally stored on magnetic tape, optical disk, x-ray film, video, audio and microfilm is consolidated into a single point of access with ChartVision.

AccountVision is a patient financial services application based on document imaging and workflow technology. It streamlines all areas of patient financial services by reducing or eliminating the paper being gathered, assembled, and manually routed through the department. AccountVision stores documents on optical and magnetic disk for easy inquiry and retrieval processing. This allows AccountVision to bring billing attachments and documentation to patient financial service representatives when and where they need it. AccountVision allows automated management of the volumes of information being transmitted electronically, including data from a healthcare facility's registration, billing, managed care systems, etc. AccountVision, Version 1.0, incorporates software originally developed by Memorial Sloan-Kettering Cancer Center, a 565 bed hospital located in New York City, and the Company licenses the exclusive marketing rights and source code to this application. (Memorial Sloan-Kettering continues to use the original software.) The installation of AccountVision 1.0 includes the customization of software code to meet the customer's specific needs. AccountVision 1.0 has been installed and is in production at Stanford University Medical Center. AccountVision 2.0 is currently being developed by LanVision. AccountVision 2.0 will have increased functionality and modularity, which will

typically reduce the need for customization. Additionally, AccountVision 2.0 will have a common database with ChartVision. AccountVision 2.0 is expected to be completed in the second half of 1997.

On-Line Chart Completion is an add-on module to ChartVision and is in its final development stages. It is currently installed at two beta sites. On-Line Chart Completion provides healthcare facilities with automated management of chart deficiencies. Through the integration of medical records workflow processing and imaging technology, On-Line Chart Completion enables the deficiency analyst to identify, assign, review and reassign medical record deficiencies. The clinician can sign documents, annotate and highlight, view the entire record while dictating, attach notes and comments and complete assigned deficiencies. Management can track and report on deficiency progress throughout the enterprise. On-Line Chart Completion also provides standard Joint Commission on the Accreditations of Healthcare Organizations reports and customer defined reports. Cases can be updated at any time and simultaneous access to the documents eliminates file contention. The automated, flexible workflow processes were designed to be intuitive to the end users, analysts and clinicians. This makes it easy for clinicians to finish their on-line "paper work." Because it is flexible and easy to use, On-Line Chart Completion helps customers increase efficiency immediately. As a result, hospitals and integrated delivery networks can quickly improve cash flow through faster billing, reduced denials and optimized coding.

Correspondence is currently being developed and will be an add-on module to ChartVision and AccountVision. Correspondence is expected to be completed in the first half of 1997. Correspondence was developed to help hospitals and integrated delivery networks quickly and efficiently complete requests for information from various sources. It is an automated, flexible workflow processing and management reporting system. It provides on-line access to all pertinent information. The implementation of a workflow system offers an opportunity to streamline and re-design existing core operational processes. The correspondence analyst's work queue accepts incoming requests that are faxed, scanned (mail), manually created (phone call) or delivered through an interface from another system within the enterprise. Once a request is received by the Correspondence system, it automatically initiates the workflow process and moves the users through the pre-defined steps necessary to fulfill the request. The actual request document can also be routed as an attachment and is then available as needed. Requests are tracked and the current status can be viewed on-line. The Correspondence system has a flexible invoice processing option that can be built into the workflow process, and it produces standard productivity, revenue and summary reports. Ad hoc reports may also be generated.

OmniVision is also in its final development stages and is expected to be completed in the first half of 1997. OmniVision is a suite of image-enabling and workflow applications that provides physicians, clinicians and other healthcare users with immediate, simultaneous access to any patient information including multimedia and paper-based information, through their existing applications.

OmniVision delivers unstructured data and workflow automation to any third-party application while creating a complete historical repository. As a result, OmniVision allows hospitals and integrated delivery systems to consolidate all health information, whether text, document and

medical images, sound, or video into one easily accessible repository. This provides a significant advantage to healthcare organizations that currently rely on manual processes or multiple non-integrated applications to access the complete patient record.

OmniVision allows any application across the entire enterprise to be image-enabled, from the host healthcare information system, to human resources, materials management, patient billing, as well as clinical data repositories ("CDR"), computer-based patient record systems, and others. And when the CDR 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 that users can view traditional electronic data and images simultaneously on the same screen without signing in and out of multiple applications.

LanVision is currently working with various customers to image-enable their existing information systems using OmniVision including: the "Oacis" clinical data repository system at Stanford University Medical Center; the "PHAMIS" clinical data repository at Grant/Riverside Methodist Hospital and U.S. Health Corporation; and the "AutoCyte" pathology system at the University of Pittsburgh Medical Center. The Company is also in the process of image-enabling the 3M Healthcare Enterprise Management system, a CPR system and the MasterChart CPR system, currently being distributed by Lanier Healthcare Systems.

The Company views the seamless integration of its products with third-party clinical data repository software systems and other applications systems as a key element of the Company's business strategy. To the degree that the Company is successful in image-enabling these applications, the Company believes that it will be able to offer its image-enabling systems to other healthcare providers using systems such as Oacis, PHAMIS, etc.

WebView development began in the second half of fiscal 1996. WebView will provide seamless, easy access to any health information via the Internet. With WebView, Hospitals and integrated delivery networks will be able to take advantage of the World Wide Web for truly enterprise-wide access. Regardless of where they are located, healthcare users will be able to immediately and simultaneously access any healthcare information across the Internet with complete security and audit trail. Using popular Internet browsers, WebView will allow authorized users to query LanVision systems, retrieving, displaying, navigating and printing documents in accordance with appropriate security permissions restrictions. WebView will allow healthcare organizations to establish a private, secure intranet (a private network that utilizes Internet protocols and technology) and scale to the Internet as appropriate. Development of WebView is expected to be completed in late fiscal 1997.

The Company continues to focus its research and development efforts to develop new application software and increase the functionality of existing applications. The Company's research and development efforts are influenced significantly by customer requirements and desires. During fiscal 1996, the Company's product development staff grew from five to nineteen people. The company intends to continue to expand its product development staff in fiscal 1997.

Professional Services provided by LanVision complements its systems by offering high quality professional services which the Company believes are critical to attracting new customers and maintaining existing customer satisfaction. These services include implementation and training, project management 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.

### **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; Cox Health Systems, Springfield, MO; Holzer Medical Center, Gallipolis, OH; ProMedica Health Systems, Toledo, OH; St. Alexius Medical Center, Bismarck, ND; Stanford University Medical Center, Palo Alto, CA; St. Francis Hospital and Medical Center, Hartford, CT; Summa Health System: Akron City Hospital, Akron, OH; and St. Thomas Medical Center, Akron, OH; University Hospital, Cincinnati, OH; University of Pittsburgh Medical Center, Pittsburgh, PA; U.S. Health Corporation: Grant/Riverside Methodist Hospital, Columbus, OH.

In fiscal year 1996, the University of Pittsburgh Medical Center, Beth Israel Medical Center and University Hospital, Cincinnati, OH, accounted for 21%, 17% and 11%, respectively, of the Company's total revenues. In fiscal year 1995, Beth Israel Medical Center, Albert Einstein Health Network and University Hospital, Cincinnati, OH, accounted for 35%, 19% and 16%, respectively, of the Company's total revenues. In fiscal year 1994, Beth Israel Medical Center, University Hospital, Cincinnati, OH and Summa Health System accounted for 37%, 35% and 19%, 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, 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, 1997 and January 31, 1996, the Company's customers had entered into master agreements for systems and services (excluding maintenance) which had not yet been delivered, installed and accepted which, if fully performed, would generate sales of approximately \$6,600,000 and \$10,400,000, respectively. Such master agreements as of January 31, 1997 relate to ten customers and are currently expected to be performed over the next two to three years. Of the backlog at January 31, 1997, the Company has received purchase orders for approximately \$3,200,000 of systems and services (excluding maintenance), of which \$2,200,000 is currently anticipated to be delivered in fiscal year 1997.

The Company's master agreements also generally provide for an initial maintenance period and give the customer the right to subscribe for maintenance services on a monthly, quarterly or annual basis. Maintenance revenues for fiscal years 1996 and 1995 and 1994 were approximately \$1,186,000, \$906,000 and \$593,000, respectively.

The commencement of revenue recognition varies depending on the size and complexity of the system and the implementation schedule requested by the customer. In addition, shipments to customers may be postponed due to delays in the Company's development schedule. 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, may delay certain aspects of the installation and may terminate the agreement, at the customer's discretion, without penalty and without regard to the Company's performance. To date, no customer has terminated a master agreement, although customers have delayed installations from the original scheduled installation date and have modified the original system configuration. There can be no assurance that a customer will not cancel all or any portion of a master agreement in the future. 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**

AccountVision, Version 1.01, incorporates software originally developed by Memorial Sloan-Kettering Cancer Center in New York. In 1994, Memorial Sloan-Kettering granted to LanVision the exclusive marketing rights to this software. Memorial Sloan-Kettering also granted to LanVision a non-exclusive, unlimited copy license to re-use and reengineer this software. The Company's agreement with Memorial Sloan-Kettering provides that the Company will pay a specified royalty to Memorial Sloan-Kettering each time the Company provides AccountVision, Version 1.0, to another customer. The initial term of the agreement expires in October 1997 and is automatically renewable for one year periods thereafter. Memorial Sloan-Kettering may terminate the agreement prior to expiration if the Company fails to meet stated minimum licensing and sales representative quotas. To date, AccountVision 1.0 has only been installed at Stanford University Medical Center. Currently, LanVision is developing AccountVision 2.0. AccountVision 2.0 will have increased functionality, modularity and a common database with ChartVision. AccountVision 2.0 is expected to be complete in the second half of 1997. LanVision retains ownership of all revisions, enhancements and upgrades to the original form of AccountVision developed by LanVision.

The Company has agreed with several other customers that with regard to specific customized software and, in one instance, certain derivatives thereof, the Company will pay a specified royalty to the original customer each time the Company provides the same software to another customer. As of the date hereof, the Company has paid no royalties under these agreements.

## **Sales and Marketing**

At January 31, 1996, the Company's sales and marketing force consisted of eight people, including a regional marketing manager in New York, serving the northeast United States region; a regional marketing manager in Chicago, serving the Great Lakes region; and a six-person marketing and sales support team. During fiscal 1996, the Company expanded its sales and marketing force by twenty-two people, net. At January 31, 1997, the direct sales force consisted of nine commissioned sales personnel and seventeen personnel in pre-sales support and marketing. During 1996, the Company terminated a sales agent in San Diego, previously serving the Western United States, and this region is now being served by the Company's direct sales force and the Company's other third-party resellers. LanVision intends to continue to expand its direct sales force, especially in areas where the Company does not currently have a geographic presence. However, the expansion in 1997 will be at a slower pace and will be monitored along with the Company's assessment of market growth opportunities.

During 1996, the Company placed increased emphasis on indirect distribution channels. LanVision hired a director of indirect sales channels and transferred three people from the direct sales group to support the indirect sales operation.

In March 1996, as an initial step in the Company's strategy to expand its sales, marketing and distribution channels, the Company entered into a marketing agreement with Lanier Worldwide, Inc. ("Lanier"), a wholly-owned subsidiary of Harris Corporation. LanVision granted to Lanier the non-exclusive right to market and distribute ChartVision, AccountVision, On-Line Chart Completion and related applications throughout North America until June 30, 1997 and for one-year renewal periods thereafter as may be agreed by both parties. Lanier is obligated to market ChartVision as its exclusive applications software for medical records except to those Lanier customers currently using certain Lanier products and except as agreed by both parties. Lanier has the right to terminate the agreement if LanVision markets a CPR product which directly competes with Lanier's CPR product and LanVision has the right to terminate the agreement if Lanier markets a product which directly competes with ChartVision, AccountVision or On-Line Chart Completion. The contractual terms of the agreement are designed to operate as an incentive for Lanier to focus on small- to medium-sized hospitals by providing Lanier with a larger discount for software licensed to small- to medium-sized hospitals. LanVision will have the first opportunity to provide installation and maintenance services to customers that have 400 or

more licensed beds and Lanier will have such first opportunity with regard to customers that have less than 400 licensed beds.

In April 1997, LanVision and Lanier agreed in principle to a new three year reseller agreement. Under the proposed agreement, Lanier will market LanVision's complete line of document imaging applications including ChartVision, AccountVision, OmniVision, On-Line Chart Completion, Correspondence and WebView. Lanier has agreed to partner exclusively with LanVision in these application areas. The new agreement will encompass Lanier's entire 125 member healthcare sales organization. In addition, Lanier will establish a dedicated team of specialists that will focus on document imaging and workflow applications. LanVision has agreed to dedicate a team of pre-sales support personnel to assist the Lanier sales effort. Lanier will have the right to sub-license LanVision's proprietary and third-party software in exchange for royalty payments. Royalty terms for the relicensing of LanVision's systems are the same for large or small hospitals. Lanier has the option to purchase hardware and professional services from LanVision.

Both companies intend to pursue joint product integration and marketing opportunities. One planned project will include the integration of LanVision's document imaging and On-Line Chart Completion technologies with Lanier's dictation, medical transcription, data repositories, and digital copiers/printers. Lanier intends to market this integrated solution as DOCument Imaging/ES to selected providers of healthcare information and clinical systems in addition to healthcare enterprises.

In March 1997, LanVision entered into a marketing agreement with 3M Health Information Systems to integrate OmniVision, LanVision's image-enabling software application, with the 3M Healthcare Enterprise Management System, a computer based patient record system. Under the terms of the agreement, 3M Health Information Systems will receive a commission on LanVision products installed as a result of qualified leads from 3M Health Information Systems.

Also, in March 1997, LanVision formed a cooperative marketing and professional services agreement with Crowe, Chizek and Company LLP aimed at the healthcare industry. In this agreement, Crowe Chizek will recommend LanVision technology in imaging and workflow opportunities, while LanVision will recommend the services of Crowe, Chizek in accounts payable opportunities. Crowe Chizek is the 10th largest consulting and Certified Public Accounting firm in the United States.

In April 1997, LanVision formed a cooperating marketing agreement with Daou Systems, Inc. ("Daou"), a leader in designing, planning, implementing and managing computer networks used in the healthcare industry. Under the terms of the agreement, LanVision and Daou will each promote customer awareness of the benefits of each other's products. LanVision and Daou have each agreed to pay the other party a commission on products installed as a result of qualified leads from the other party.

LanVision intends to continue to expand alternative channels of distribution and increase LanVision's support of these third-party distributors.

Throughout 1996, the Company experienced extended sales cycles which adversely affected revenues. It is common for sales cycles to take from six to eighteen months. The sales cycle consists of several steps, which include initial contact and lead qualification, response to requests for proposals, analysis of business requirements, site visits, preparation of final bid and agreement negotiations. Members of the Company's product development, client services and client support departments assist the Company's direct sales force in making presentations to, and preparing comprehensive proposals for potential customers. To support the Company's sales efforts, the Company conducts a variety of programs intended to market and position its product line and services. These programs include trade journal advertising, public relations activities and trade show participation.

## **Competition**

The healthcare information access systems market historically has been dominated by several companies. 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 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 systems vendors which 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 healthcare information systems market. Suppliers and companies with which 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 company size. 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.

## **Employees**

As of March 31, 1997, LanVision had 101 full-time employees. 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.

## **ITEM 2. PROPERTIES**

The Company's principle administrative and sales offices are located at One Financial Way, Suite 400, Cincinnati, Ohio 45242-5859. The offices consist of approximately 23,000 square feet of space under a lease which expires in August, 2001. The rental expense for these offices approximates \$422,000 annually.

The Company also leases office space for a portion of its software engineering and research and development operations at 5481 Creek Road, Cincinnati, Ohio 45242-4001. The offices consist of approximately 10,000 square feet of space under a lease which expires in April, 2000. The rental expense for these offices approximates \$75,000 annually.

The Company also leases office space for a portion of its software engineering and research and development operations at 5970 Fairview Road, Suite 700, Charlotte, North Carolina 28210-3167. The offices consist of approximately 3,800 square feet of space under a lease which expires in September, 1999. The rental expense for these offices approximates \$62,000 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.

## **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, management is not aware of any of 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 23, 1997 are:

Name ----	Age ---	Position(1) -----	Elected to Present Position(2) -----
J. Brian Patsy	46	Chairman of the Board, President, Treasurer, Chief Executive Officer(3) and Director	1989
Eric S. Lombardo	44	Executive Vice President, Secretary and Director	1989
Robert F. Golden	42	Chief Technology Officer	1996
Alan J. Hartman	44	General Counsel	1996
Thomas E. Perazzo	43	Chief Financial Officer	1996

- (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. before the reorganization. See Item 1, "Business-General."
- (2) Represents date of election to Registrant or its predecessor before the reorganization. See (1) above.
- (3) Since April 8, 1997, Mr. Brian Patsy is also performing the function of Vice President, Sales and Marketing until the current vacancy is filled.

J. Brian Patsy, is a co-founder of the Company and has served as the President, Treasurer 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 25 years of experience in the information technology industry. From 1986 to 1989, Mr. Patsy served as Branch Manager and District Marketing Manager for Wang Laboratories, Cincinnati, Ohio. Prior to 1986, Mr. Patsy served twelve years in numerous engineering, sales, sales marketing and executive management positions with AT&T, Ameritech and Ohio Bell Telephone Company.

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 and Secretary of the Company since May, 1990. Mr. Lombardo has over 23 years of experience in the information technology industry. From 1983 to 1989, Mr. Lombardo served as Major Account Executive for Wang Laboratories. In 1979, Mr. Lombardo established and managed the Cincinnati, Ohio office of Triad Systems, a

wholesale distribution software company. Prior to 1979, Mr. Lombardo was employed by NCR Corporation in various capacities.

Robert F. Golden, joined the Company in February, 1996 as Chief Technology Officer. From February, 1995 until he joined the Company, Mr. Golden served as a consultant to the Company, responsible for new product development. From 1992 to 1994, Mr. Golden served as Vice President and General Manager of Charm Bioengineering, Inc., a biotechnology immunoassay manufacturer. From 1984 to 1992, Mr. Golden served as President of Tekscan, Inc., a marketer and manufacturer of proprietary biotechnology and industrial sensor and imaging systems for the medical, automotive and computer industries.

Alan J. Hartman, joined the Company in June, 1996 as General Counsel. From 1983 until he joined the Company, Mr. Hartman served in various capacities, including General Counsel, of Cincom Systems, Inc., an international software development and marketing company.

Thomas E. Perazzo, joined the Company in January, 1996 as Chief Financial Officer. From 1993 until he joined the Company, Mr. Perazzo served as the Chief Financial Officer of Cincom Systems, Inc., an international software development and marketing company. From 1992 through 1993, Mr. Perazzo served as Vice President & Controller of Cincom Systems, Inc. Prior to 1992, Mr. Perazzo was a partner of KPMG Peat Marwick LLP, in Cincinnati, Ohio. Mr. Perazzo is a Certified Public Accountant.

All Executive Officers currently have employment agreements with the Company that generally provide annual salaries, 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

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 indicated since the Company's initial public offering on April 18, 1996, as reported by The Nasdaq Stock Market, Inc.

	High ----	Low ---
1st Quarter (April 18, 1996 through April 30, 1996)	\$ 18.75	\$ 14.50
2nd Quarter (May 1, 1996 through July 31, 1996)	18.75	8.50
3rd Quarter (August 1, 1996 through October 31, 1996)	14.50	7.75
4th Quarter (November 1, 1996 through January 31, 1997)	9.00	6.25

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 wide 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 106 stockholders of record as of April 21, 1997. 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 3,200 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.

## 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, 1997. 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)				
	1996	1995	1994	1993	1992
(in thousands, except per share data)					
Total revenues	\$ 10,310	\$ 5,019	\$ 2,412	\$ 3,250	\$ 1,136
Total operating expenses	16,271	5,324	3,105	3,138	999
Operating income (loss)	(5,961)	(306)	(693)	112	137
Net income (loss)	(4,669)	(326)	(572)	73	94
Net income (loss) per share of					
common stock	(.56)	(.05)	(.09)	.01	.01
Total assets	33,300	3,046	1,518	769	533
Convertible redeemable					
preferred stock	-	850	850	-	-
Total stockholders' equity (deficit)	29,921	(646)	(319)	253	255
Weighted average shares outstanding	8,284	6,190	6,190	6,223	6,685
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 7 through 10 of the Company's 1996 Annual Report to Stockholders appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Financial Statements are incorporated herein by reference from pages 11 through 21 of the Company's 1996 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 21 of the Company's 1996 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, 1997 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 27, 1997 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 27, 1997 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 27, 1997 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 27, 1997 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 27, 1997 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 1996 Annual Report to Stockholders are incorporated herein by reference from pages 11 through 21 of the Annual Report. Reference is also made to Item 8 of this Form 10-K.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Report of Independent Auditors**

**Consolidated Balance Sheets at January 31, 1997 and 1996**

**Consolidated Statements of Operations for the three years ended January 31, 1997**

**Consolidated Statements of Cash Flows for the three years ended January 31, 1997**

Consolidated Statements of Changes in Convertible Redeemable Preferred Stock and Stockholders' Equity (Deficit) for the three years ended January 31, 1997

**Notes to 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.
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	# Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and J. Brian Patsy effective January 1, 1996
10.5	# Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Eric S. Lombardo effective January 1, 1996
10.6	# Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Robert F. Golden effective February 1, 1996
10.7	# Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Thomas E. Perazzo effective January 30, 1996
10.8	# Employment Agreement among LanVision Systems, Inc., LanVision, Inc. and Alan J. Hartman, effective June 1, 1996
10.9	# 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
10.10	# 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
10.11	Consent by Blue Chip Capital Fund Limited Partnership dated February 8, 1996
10.12(a)	Lease for office space between Duke Realty Limited Partnership and LanVision, Inc. dated May 7, 1996
10.12(b)	First amendment to office lease with Duke Realty Limited Partnership, dated July 12, 1996
10.12(c)	Second amendment to office lease with Duke Realty Limited Partnership, dated February 25, 1997

10.13	Lease for office space between Green Realty Corporation and LanVision, Inc., dated April 7, 1997
10.14(a)	Lease for office space between Fairview Plaza Associates Limited Partnership and LanVision, Inc., dated February 26, 1996
10.14(b)	First amendment to lease between Fairview Plaza Associates Limited Partnership, Lessor and LanVision, Inc., Lessee, dated August 12, 1996
10.15	Marketing Agreement between Lanier Worldwide, Inc. and LanVision, Inc. effective March 1, 1996
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 1996, 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 23, 1997*

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 dates indicated.

<i>/s/ J. Brian Patsy</i> ----- J. Brian Patsy	Chief Executive Officer and Director	April 23, 1997
<i>/s/ Eric S. Lombardo</i> ----- Eric S. Lombardo	Director	April 23, 1997
<i>/s/ George E. Castrucci</i> ----- George E. Castrucci	Director	April 23, 1997
<i>/s/ Z. David Patterson</i> ----- Z. David Patterson	Director	April 23, 1997
<i>/s/ Thomas E. Perazzo</i> ----- Thomas E. Perazzo	Chief Financial Officer and Chief Accounting Officer	April 23, 1997

Schedule II Valuation and Qualifying Accounts and Reserves

LanVision Systems, Inc.  
for the three years ended January 31, 1997

(in thousands) Description -----	Balance at Beginning of Period -----	Additions -----		Deductions -----	Balance at End of Period -----
		Charged to costs and Expenses -----	Charged to Other Accounts -----		
Year ended January 31, 1997:					
Allowance for doubtful accounts	\$ 75	\$ 130	\$ -	\$ -	\$ 205
Warranty reserve	75	95	-	6	164
Year ended January 31, 1996:					
Allowance for doubtful accounts	75	-	-	-	75
Warranty reserve	75	-	-	-	75
Year ended January 31, 1995:					
Allowance for doubtful accounts	75	-	-	-	75
Warranty reserve	-	75	-	-	75

INDEX TO EXHIBITS

EXHIBITS

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11.1	Statement Regarding Computation of Per Share Earnings	Page 64
13.1	Annual Report to Stockholders	Page 65
21.1	Subsidiaries of the Registrant	Page 93
23.1	Consent of Independent Auditors	Page 93
27.1	Financial Data Schedule	Page 94

\* Incorporated by reference from document indicated below.

# Management Contracts and Compensatory Arrangements.

- (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.

**Exhibit 10.8  
LANVISION SYSTEMS, INC.**

**EMPLOYMENT AGREEMENT AMONG LANVISION SYSTEMS, INC., LANVISION, INC. AND ALAN J. HARTMAN,  
EFFECTIVE JUNE 1, 1996**

**EMPLOYMENT AGREEMENT**

This EMPLOYMENT AGREEMENT (this "Agreement") is entered into effective as of June 1, 1996 by and among LanVision Systems, Inc., a Delaware corporation ("Parent"), LanVision, Inc., an Ohio corporation ("Company") and Alan J. Hartman ("Employee").

**RECITALS:**

A. Parent and the Company mutually desire to employ Employee to perform certain legal and human resources services for Parent and the Company; and

B. Employee possesses certain skills and expertise in legal and human resources services and desires to provide such services to Parent and the Company as their employee.

NOW, THEREFORE, in consideration of the premises and the agreements contained herein, and for other good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, the parties agree as follows:

**1. EMPLOYMENT**

Parent and the Company hereby agree to employ Employee, and Employee, in consideration of such employment and other consideration set forth herein, hereby accepts employment, upon the terms and conditions set forth herein.

**2. POSITION AND DUTIES**

During the term of this Agreement, Employee shall be employed in the position of General Counsel and Director of Human Resources of each of Parent and the Company. While employed hereunder, Employee shall do all things necessary, legal and incident to the above position, and otherwise shall perform such functions as the President and/or Chief Financial Officer of Parent or the Company may establish from time to time. Without limiting the foregoing, Employee will be responsible for and direct the legal and human resources operations and functions for Parent and the Company. Employee shall be available to perform such duties on a full-time (40 hours per week, Monday through Friday) basis at the Company's offices located at 10671 Techwoods Circle, Cincinnati, Ohio, or at such other locations designated by Parent or Company from time to time.

**3. COMPENSATION**

Subject to such modifications as may be approved from time to time by the Board of Directors or Officers of Parent, the Employee shall receive the compensation and benefits as set forth in the offer letter dated April 16, 1996 from Thomas E. Perazzo, a copy of which is attached hereto. Such compensation shall be paid by Parent or the Company, at the discretion of Parent.

#### 4. EXPENSES

Parent or the Company shall pay or reimburse Employee for all travel and out-of-pocket expenses reasonably incurred or paid by the Employee in connection with the performance of Employee's duties as an employee of Parent or the Company, respectively, upon compliance with the Company's procedures for expense reimbursement including the presentation of expense statements or receipts or such other supporting documentation as the Company may reasonably require.

#### 5. PRIOR EMPLOYMENT

The Employee warrants and represents to Parent and the Company (i) that the Employee will take no action in violation of any employment agreement or arrangement with any prior employer, (ii) that the Employee has disclosed to Parent and the Company all such prior written agreements, and (iii) that the employee has the full right and authority to enter into this Agreement and to perform all of the Employee's obligations hereunder. The Employee agrees to indemnify and hold Parent and the Company harmless from and against any and all claims, liabilities or expenses incurred by Parent and/or the Company as a result of any claim made by any prior employer arising out of this Agreement or the employment of the Employee by Parent and the Company.

#### 6. OUTSIDE EMPLOYMENT

Employee shall devote Employee's full time and attention to the performance of the duties incident to Employee's position with Parent and the Company, and shall not have any other employment with any other enterprise or substantial responsibility for any enterprise which would be inconsistent with Employee's duty to devote Employee's full time and attention to Parent and Company matters, provided that, the foregoing shall not prevent the Employee from participating in any charitable or civic organization that does not interfere with Employee's performance of the duties and responsibilities to be performed by Employee under this Agreement.

#### 7. CONFIDENTIAL INFORMATION

Employee shall not, during the term of this Agreement or at any time thereafter, disclose, or cause to be disclosed, in any way Confidential Information, or any part thereof, to any person, firm, corporation, association, or any other operation or entity, or use the Confidential Information on Employee's own behalf, for any reason or purpose. Employee further agrees that, during the term of this Agreement or at any time thereafter, Employee will not distribute, or cause to be distributed, Confidential Information to any third person or permit the reproduction of the Confidential Information, except on behalf of Parent or the Company in Employee's capacity as an

employee of Parent and the Company. Employee shall take all reasonable care to avoid unauthorized disclosure or use of the Confidential Information. Employee hereby assumes responsibility for and shall indemnify and hold Parent and/or the Company harmless from and against any disclosure or use of the confidential Information in violation of this Agreement.

For the purpose of this Agreement, "Confidential Information" shall mean any written or unwritten information which specifically relates to and/or is used in Parent's or the Company's business (including without limitation, Parent's or the Company's services, processes, patents systems, equipment, creations, designs, formats, programming, discoveries inventions, improvements, computer programs, data kept on computer, engineering, research, development, applications, financial information, information regarding services and products in development, market information including test marketing or localized marketing, other information regarding processes or plans in development, trade secrets, training manuals, know-how of the Company, and the customers, clients, suppliers and others with whom Parent and/or the Company does or has in the past done, business, regardless of when and by whom such information was developed or acquired) which Parent or the Company deems confidential and proprietary which is generally not known to others outside Parent or the Company and which gives or tends to give Parent or the Company a competitive advantage over persons who do not possess such information or the secrecy of which is otherwise of value to Parent and/or the Company in the conduct of its business -- regardless of when and by whom such information was developed or acquired, and regardless of whether any of these are described in writing, reduced to practice, copyrightable, or considered copyrightable, patentable or considered patentable. Provided, however, that "Confidential Information" shall not include general industry information or information which is publicly available or is otherwise in the public domain without breach of this Agreement, information which Employee has lawfully acquired from a source other than Parent or the Company, or information which is required to be disclosed pursuant to any law, regulation, or rule of any governmental body or authority or court order. Employee acknowledges that the Confidential Information is novel, proprietary to and of considerable value to Parent and the Company.

Employee agrees that all restrictions contained in this Section 7 are reasonable and valid under the circumstances and hereby waives all defenses to the strict enforcement thereof by Parent and/or the Company.

Employee agrees that, upon the request of Parent or the Company, Employee will immediately deliver up to the requesting entity all Confidential Information in Employee's possession and/or control, and all notes, records, memoranda, correspondence, files and other papers, and all copies, relating to or containing Confidential Information. Employee does not have, nor can Employee acquire any property or other right in the Confidential Information.

## 8. PROPERTY OF PARENT AND THE COMPANY

All ideas, inventions, discoveries, proprietary information, know-how, processes and other developments and, more specifically, improvements to existing inventions, conceived by the Employee, alone or with others, during the term of the Employee's employment, whether or not during working hours and whether or not while working on a specific project, that are within the scope of Parent's or the Company's business operations or that relate to any work or projects of Parent or the Company, are and shall remain the exclusive property of Parent and the Company. Inventions, improvements and discoveries relating to the business of Parent or the Company conceived or made by the Employee, either alone or with others, while employed with Parent and the Company are conclusively and irrebutably presumed to have been made during the period of employment and are the sole property of Parent and the Company. The Employee shall promptly disclose in writing any such matters to Parent and the Company but to no other person without the consent of Parent. The Employee will, upon request of Parent, execute such assignments or other instruments and assist Parent and the Company in the obtaining, at the Company's sole expense, of any patents, trademarks or similar protection, if available, in the name of the Company.

## 9. NON-COMPETITION AGREEMENT

(A) Except for a change in control of Parent, during the term of this Agreement and for a period of one year after the termination date of this Agreement (whether such termination be with or without cause), Employee agrees that he will not directly or indirectly, own, operate or otherwise work for or participate in any competitive business in the United States which designs, develops, manufactures or markets any product or service that in any way competes with Parent's or the Company's business, products or services as conducted, or planned to be conducted, on the date of termination (a "Competitive Business").

(B) During the term of this Agreement and for a period ending one year from the termination of Employee's employment with Parent and the Company, whether by reason of the expiration of the term of this Agreement, resignation, discharge by Parent and the Company or otherwise, Employee hereby agrees that Employee will not, directly or indirectly:

(i) solicit, otherwise attempt to employ or contract with any current or future employee of Parent or the Company for employment or otherwise in any Competitive Business or otherwise offer any inducement to any current or future employee of Parent or the Company to leave Parent's or the Company's employ, except that the foregoing restriction shall not apply to Employee with respect to the person serving as his administrative assistant; or

(ii) contact or solicit any customer or client of Parent or the Company (an "Existing Customer"), contact or solicit any individual or business entity with whom Parent or the Company has directly communicated for the purpose of rendering services prior to the effective date of such termination ("a Potential Customer") or otherwise provide any other products or services for any Existing Customer or Potential Customer

of Parent or the Company, on behalf of a Competitive Business or in a manner that is competitive to the Parent's or the Company's business; or

(iii) use or divulge to anyone any information about the identity of Parent's or the Company's customers or suppliers (including without limitation, mental or written customer lists and customer prospect lists), or information about customer requirements, transactions, work orders, pricing policies, plans, or any other Confidential Information.

(C) For the purpose of this Agreement, Competitive Business shall mean any business operation (including a sole proprietorship) in the United States which designs, develops, manufactures or markets any product or service that in any way competes with Parent's or the Company's health information access system business, products or services as conducted, or contemplated to be conducted, on the date of termination.

## 10. TERM

Unless earlier terminated pursuant to Section 11 hereof, the term of this Agreement shall be for the time period beginning June 1, 1996 the date hereof and continuing through May 31, 1999 (the "Term"). Neither Parent or the Company nor the Employee shall have any obligation to the other to negotiate a new period of employment subsequent to the end of the Term.

## 11. TERMINATION

(A) DEATH This Agreement and Employee's employment thereunder shall be terminated on the death of Employee, effective as of the date of Employee's death.

(B) CONTINUED DISABILITY This Agreement and Employee's employment thereunder may be terminated, at the option of Parent upon a Continued Disability of Employee, effective as of the date of the determination of continued Disability as that term is hereinafter defined. For the purposes of this Agreement, "Continued Disability" shall be defined as the inability or incapacity (either mental or physical) of Employee to continue to perform 120 working days, or if, during any calendar year of the Term hereof because of disability, Employee shall have been unable to perform Employee's duties hereunder for a total period of 180 working days regardless of whether or not such days are consecutive. The determination as to whether Employee is unable to perform the essential functions of Employee's job shall be made by Parent's Board of Directors in its reasonable discretion; provided, however, that if Employee is not satisfied with the decision of the Board, Employee will submit to examination by three competent physicians who practice in the metropolitan area in which the Employee then resides, one of whom shall be selected by Parent, another of whom shall be selected by Employee, with the third to be selected by the physicians so selected. The decision of a majority of the physicians so selected shall supersede the decision of the Board and shall be final and conclusive.

(C) TERMINATION FOR GOOD CAUSE Notwithstanding any other provision of this Agreement, Parent may at any time immediately terminate this Agreement and Employee's employment thereunder for Good Cause. For this purpose, "Good Cause" shall include the

following: the current use of illegal drugs; indictment for any crime involving moral turpitude, fraud or misrepresentation; commission of any act which would constitute a felony and which would adversely impact the business or reputation of Parent or the Company; fraud; misappropriation or embezzlement of Parent or Company funds or property; willful conduct which is materially injurious to the reputation, business or business relationships of Parent or the Company; or material violation of any of the provisions of this Agreement. Any alleged cause for termination shall be delivered in writing to Employee stating the full basis for such cause along with any notice of such termination.

(D) TERMINATION WITHOUT GOOD CAUSE Parent or the Company may terminate Employee's employment prior to the Expiration Date at any time, whether or not for Good Cause (as "Good Cause" is defined in Section 11 (C) above). In the event Parent or the Company terminates Employee without cause, Parent or the company will pay Employee a lump sum amount equal to three-quarters times the Employee's annual salary and bonus at the time of termination. Such severance payment shall be paid within 90 days following the date of Employee's termination.

## 12. CHANGE IN CONTROL; ACCELARATED VESTING SHEDULES

In the event that, within twelve months of a change in control of Parent, Employee's employment by Parent and the Company is terminated prior to the end of the Term or Employee terminates his employment due to a material reduction in his duties or compensation, (i) all stock options granted to Employee shall immediately vest in full, and (ii) Parent or the Company will pay Employee a lump sum amount equal to three-quarters times the Employee's annual salary and bonus at the time of termination. For purposes of this Agreement, "change in control" means any of the following events:

(a) A change in control of the direction and administration of Parent's business of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of regulation 14A promulgated under the Securities Exchange Act of 1934, as amended the (the "1934 Act"), as in effect on the date hereof and any successor provision of the regulations under the 1934 Act, whether or not Parent is the subject to such reporting requirements; or

(b) Any "person" (as such term is used in Section 13 (d) and Section 14 (d) (2) of the 1934 Act but excluding any employee benefit plan of Parent) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of securities of Parent representing more than one half of the combined voting power of Parent's outstanding securities then entitled to vote for the election of directors; or

(c) Parent shall sell all or substantially all of the assets of Parent; or

(d) Parent shall participate in a merger, reorganization, consolidation or similar business combination that constitutes a change in control as defined in the 1996 LanVision

Systems, Inc. Employee Stock Option Plan and/or results in the occurrence of any event described in clause (a), (b), or (c) above.

### 13. ACKNOWLEDGEMENTS

Parent, the Company and Employee each hereby acknowledge and agree as follows:

(A) The covenants, restrictions, agreements and obligations set forth herein are founded upon valuable consideration, and, with respect to the covenants, restrictions, agreements and obligations set forth in Sections 7, 8 and 9 hereof, are reasonable in duration and geographic scope.

(B) In the event of a breach or threatened breach by Employee of any of the covenants, restrictions, agreements and obligations set forth in Section 7, 8, and/or 9, monetary damages or the other remedies at law that may be available to Parent and/or the Company for such breach or threatened breach will be inadequate and, without prejudice to Parent's or the Company's right to pursue any other remedies at law or in equity available to it for such breach or threatened breach, including, without limitation, the recovery of damages from Employee, Parent and/or the Company will be entitled to injunctive relief from a court of competent jurisdiction; and

(C) The time period and geographical area set forth in Section 9 hereof are each divisible and separable, and, in the event that the covenants not to compete contained therein are judicially held invalid or unenforceable as to such time period and/or geographical area, they will be valid and enforceable in such geographical area(s) and for such time period(s) which the court determines to be reasonable and enforceable. The Employee agrees that in the event any court of competent jurisdiction determines that the above covenants are invalid or unenforceable to join with Parent and the Company in requesting that court to construe the applicable provision by limiting or reducing it so as to be enforceable to the extent compatible with the then applicable law. Furthermore, any period of restriction or covenant herein stated shall not include any period of violation or period of time required for litigation to enforce such restriction or covenant.

### 14. NOTICES

Any notice or communication required or permitted hereunder shall be given in writing and shall be sufficiently given if delivered personally or sent by telecopier to such party addressed as follows:

(A) In the case of Parent or the Company, if addressed to it as follows:

LanVision Systems, Inc. 10671 Techwoods Circle Cincinnati, Ohio 45242 Attn: J. Brian Patsy

(B) In the case of Employee, if addressed to Employee at:

Alan J. Hartman  
10671 Techwoods Circle Cincinnati, Ohio 45242

Any such notice delivered personally or by telecopier shall be deemed to have been received on the date of such delivery. Any address for the giving of notice hereunder may be changed by notice in writing.

#### 15. ASSIGNMENT, SUCCESSORS AND ASSIGNS

This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives, successors and assigns. Parent and the Company may assign or otherwise transfer their rights under this Agreement to any successor or affiliated business or corporation (whether by sale of stock, merger, consolidation, sale of assets or otherwise), but this Agreement may not be assigned, nor may the duties hereunder be delegated by Employee. In the event that Parent and the Company assign or otherwise transfer their rights under this Agreement to any successor or affiliated business or corporation (whether by sale of stock, merger, consolidation, sale of assets or otherwise), for all purposes of this Agreement, "Parent" and the "Company" shall then be deemed to include the successor or affiliated business or corporation to which Parent and the Company respectively, assigned or otherwise transferred their rights hereunder.

#### 16. MODIFICATION

This Agreement may not be released, discharged, abandoned, changed, or modified in any manner, except by an instrument in writing signed by each of the parties hereto.

#### 17. SEVERABILITY

The invalidity or unenforceability of any particular provision of this Agreement shall not affect any other provisions hereof, and this Agreement shall be construed in all respects as if any such invalid provision were omitted herefrom.

#### 18. COUNTERPARTS

This Agreement may be signed in counterparts and each of such counterpart shall constitute an original document and such counterparts taken together, shall constitute one in the same instrument.

19. DISPUTE RESOLUTION

Except as set forth in Section 13 above, any and all disputes arising out of or in connection with the execution, interpretation, performance, or non-performance of this Agreement or any agreement or other instrument between, involving or affecting the parties (including the validity, scope and enforceability of this arbitration clause), shall be submitted to and resolved by arbitration. The arbitration shall be conducted pursuant to the terms of the Federal Arbitration Act and the Commercial Arbitration Rules of the American Arbitration Association. Either party may notify the other party at any time of the existence of an arbitrable controversy by certified mail and shall attempt in good faith to resolve their differences within 15 days after the receipt of such notice. If the dispute cannot be resolved within the fifteen-day period, either party may file a written demand for arbitration with the American Arbitration Association. The place of arbitration shall be Cincinnati, Ohio.

20. GOVERNING LAW

The provisions of this Agreement shall be governed by and interpreted in accordance with the laws of the State of Ohio and the laws of the United States applicable therein. The Employee acknowledges and agrees that Employee is subject to personal jurisdiction in state and federal courts in Hamilton County, Ohio.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto effective as of the date first above written.

**LANVISION SYSTEMS, INC.**

By: /s/ J. Brian Patsy  
-----

Its: President  
-----

**LANVISION, INC.**

By: /s/ J. Brian Patsy  
-----

Its: President  
-----

**EMPLOYEE**

/s/ Alan J. Hartman  
-----

April 16, 1996

Alan J. Hartman  
53 West Villa Place  
Fort Thomas, Kentucky

Dear Alan:

On behalf of LanVision, Inc., I am pleased to extend this offer of full time employment to join our company as director of human resources and general counsel. We understand that you must give your current employer adequate notice. However, it is our understanding that you will commence work no later than June 3, 1996. Your salary will be \$9,583.33 monthly which is equivalent to \$115,000 per year. In addition, you will be eligible for a \$15,000 bonus that will be based upon LanVision achieving its revenue, gross margin and profitability goals on terms similar to the executive officers of LanVision. Also, you will receive options to purchase 12,000 common shares of LanVision Systems, Inc. at \$13.00 per share. You will be immediately eligible for two weeks of vacation. However, after January 31, 1997, you will become eligible for three weeks of vacation. Furthermore, you will be eligible for a \$300 per month car allowance.

You are eligible to join our Company Healthcare Insurance Plan on the first day of the month following 30 days from your start date. Also, upon the completion of one full year of contribution you will become eligible to join Employee Stock Purchase Plan for full time associates. This plan was put into effect by the Board Of Directors of The Company on November 30, 1995. The plan is designed to offer incentive for all of us to maximize the quality of products and services LanVision provides and to share the reward of the company's long term success from having done so.

Also, in the event of a change in control resulting in the loss of your job or a decrease in your pay or responsibilities or termination without cause, you will be entitled to severance pay equal to three fourths of your total annual compensation.

Please note that this offer of employment is contingent upon the absence of any conflicts and your signing a confidentiality and non-compete agreement. If you have any questions regarding any of this information, please do not hesitate to ask me for further details.

Alan, I am sure you will significantly contribute to the success of LanVision., and I am looking forward to working with you once again.

Very truly yours,

*/s/ Thomas E. Perazzo*

*Thomas E. Perazzo  
Chief Financial Officer*

**SECOND LEASE AMENDMENT BETWEEN DUKE REALTY LIMITED PARTNERSHIP AND LANVISION, INC.**

LK/ALC/jd/np  
02/14/97

**SECOND LEASE AMENDMENT**

THIS SECOND LEASE AMENDMENT (the "Amendment") is executed this 25TH day of February, 1997, by and between DUKE REALTY LIMITED PARTNERSHIP, an Indiana limited partnership ("Landlord"), and LANVISION, INC., an Ohio corporation ("Tenant").

**WITNESSETH:**

WHEREAS, Landlord and Tenant entered into a certain Lease dated May 7, 1996, as amended July 12, 1996 (collectively, the "Lease"), whereby Tenant leased from Landlord certain premises consisting of approximately 21,845 rentable square feet of space (the "Original Premises") located in Suite 400, One Financial Way, Cincinnati, Ohio 45242; and

WHEREAS, Landlord and Tenant desire to expand the Original Premises by approximately 1,440 rentable square feet (the "Additional Space"). Collectively, the Original Premises and Additional Space shall hereinafter be referred to as the "Leased Premises"; and

WHEREAS, Landlord and Tenant desire to amend certain provisions of the Lease to reflect such expansion, changes and additions to the Lease;

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants herein contained and each act performed hereunder by the parties, Landlord and Tenant hereby agree that the Lease is amended as follows:

1. Amendment of Article 1.

(a) Commencing May 1, 1997, SECTION 1.01 of ARTICLE 1 of the Lease is hereby amended by substituting SECOND AMENDED EXHIBIT A, attached hereto and incorporated herein by reference, on which the Original Premises are striped and the Additional Space is cross-hatched, in lieu of AMENDED EXHIBIT A attached to the Lease.

(b) Commencing May 1, 1997, Subsections B, C, D, E and L of SECTION 1.02 of ARTICLE 1 of the Lease are hereby deleted and the following subsections are substituted in lieu thereof:

B. Rentable Area: approximately 23,285 rentable square feet;

Landlord shall use commercially reasonable standards, consistently applied, in determining the Rentable Area and the rentable area of the Building. The Rentable Area shall include the area within the Leased Premises plus a pro rata portion of the area covered by the Common Areas within the Building, as reasonably determined by Landlord from time to time. Landlord's determination of Rentable Area made in good faith shall conclusively be deemed correct for all purposes hereunder, including without limitation the calculation of the Building Expense Percentage and the Minimum Annual Rent. Notwithstanding anything to the contrary contained herein, Tenant's pro rata portion of the area covered by the Common Areas within the Building shall be the product of (i) the Useable Area within the Leased Premises, as such amount may change from time to time pursuant to the terms of this Lease and (ii) Tenant's Common Area Factor. For purposes of this Lease, Tenant's Common Area Factor shall be as reasonably determined by the Landlord; provided, however, that Tenant's Common Area Factor shall not exceed 1.135.

C. Building Expense Percentage: 11.0% (23,285 / 212,125);

D. Minimum Annual Rent:

May 1, 1997 - August 31, 1997	\$104,782.12 (4 months)
September 1, 1997 - September 13, 1997	\$ 11,351.47 (13 days)
September 14, 1997 - September 13, 1998	\$314,347.56 per year
September 14, 1998 - September 13, 1999	\$314,347.56 per year
September 14, 1999 - September 13, 2000	\$320,168.76 per year
September 14, 2000 - September 13, 2001	\$320,168.76 per year;

E. Monthly Rental Installments:

May 1, 1997 - August 31, 1997	\$ 26,195.63 per month
September 1, 1997 - September 13, 1997	\$ 11,351.47 (13 days)
September 14, 1997 - September 13, 1999	\$ 26,195.63 per month
September 14, 1999 - September 13, 2001	\$ 26,680.73 per month;

L. Addresses for payments and notices:

Landlord:	Duke Realty Limited Partnership 4555 Lake Forest Drive, Suite 400 Cincinnati, OH 45242
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With Payments to: Duke Realty Limited Partnership  
P.O. Box 960664  
Cincinnati, OH 45296-0664

Tenant: LanVision, Inc.  
One Financial Way, Suite 400  
Cincinnati, OH 45242

2. AMENDMENT OF SECTION 2.02. The following shall be added to the end of SECTION 2.02 of the Lease:

"Landlord agrees to perform and complete the work on the tenant finish improvements in the Additional Space as set out in AMENDED EXHIBIT B and shall give Tenant written notice of the day on which Landlord expects to complete such work. Landlord shall provide an allowance for the direct costs of the tenant finish improvements for the Additional Space in the amount of Fourteen Dollars and Ninety-four Cents (\$14.94) per rentable square foot of the Additional Space ("Additional Allowance"). The Additional Allowance was determined by multiplying Sixteen Dollars and Seventy-six Cents (\$16.76) (the tenant finish improvement allowance for the Original Premises) by a fraction the numerator of which is equal to the number of months remaining in the term of the Lease after May 1, 1997 (53.5 months) and the denominator of which is the total number of months in the term of the Lease (60). Tenant shall reimburse Landlord for all costs of the tenant finish improvements for the Additional Space in excess of Additional Allowance provided by Landlord within thirty (30) days of an invoice from Landlord.

Upon completion of the work in the Additional Space, Tenant shall execute a letter of understanding as referred to in SECTION 2.03 of the Lease."

3. TENANT'S REPRESENTATIONS AND WARRANTIES. The undersigned represents and warrants to Landlord that (i) Tenant is duly organized, validly existing and in good standing in accordance with the laws of the state under which it was organized; (ii) all action necessary to authorize the execution of this Amendment has been taken by Tenant; and (iii) the individual executing and delivering this Amendment on behalf of Tenant has been authorized to do so, and such execution and delivery shall bind Tenant. Tenant, at Landlord's request, shall provide Landlord with evidence of such authority.

4. EXAMINATION OF AMENDMENT. Submission of this instrument for examination or signature to Tenant does not constitute a reservation or option, and it is not effective until execution by and delivery to both Landlord and Tenant.

5. DEFINITIONS. Except as otherwise provided herein, the capitalized terms used in this Amendment shall have the definitions set forth in the Lease.

6. INCORPORATION. This Amendment shall be incorporated into and made a part of the Lease, and all provisions of the Lease not expressly modified or amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed on the day and year first written above.

LANDLORD:

DUKE REALTY LIMITED PARTNERSHIP,  
an Indiana limited partnership

By: Duke Realty Investments, Inc.,  
its general partner

By: /s/ JEFFREY G. TULLOCH

Jeffrey G. Tulloch  
Vice President  
Cincinnati Group

WITNESSES:

/s/ NAOMI GUMP

NAOMI GUMP

(Printed)

/s/ NICOLE C. UNDERWOOD

NICOLE C. UNDERWOOD

(Printed)

TENANT:

LANVISION, INC., an Ohio  
corporation

By: /s/ ERIC LOMBARDO

Eric Lombardo  
Executive Vice President

WITNESSES:

/s/ KIMBERLY S. FARRIS

KIMBERLY S. FARRIS

(Printed)

/s/ MELISSA J. VINCENT

MELISSA J. VINCENT

(Printed)

STATE OF OHIO )  
 ) SS:  
COUNTY OF HAMILTON )

Before me, a Notary Public in and for said County and State, personally appeared Jeffrey G. Tulloch, by me known and by me known to be the Vice President, Cincinnati Group of Duke Realty Investments, Inc., an Indiana corporation, the general partner of Duke Realty Limited Partnership, an Indiana limited partnership, who acknowledged the execution of the foregoing "Second Lease Amendment" on behalf of said partnership.

**WITNESS my hand and Notarial Seal this 12th day of March, 1997.**

*/s/ NICOLE C. UNDERWOOD (STEVENS)*  
-----  
*Notary Public*

[seal]

**NICOLE C. UNDERWOOD (STEVENS)**  
(Printed Signature)

My Commission Expires: 10/31/2000  
-----  
My County of Residence: -----

STATE OF OHIO )  
 ) SS:  
COUNTY OF HAMILTON )

Before me, a Notary Public in and for said County and State, personally appeared Eric Lombardo, by me known and by me known to be the Executive Vice President of LanVision, Inc., an Ohio corporation, who acknowledged the execution of the foregoing "Second Lease Amendment" on behalf of said corporation.

**WITNESS my hand and Notarial Seal this 25th day of February, 1997.**

*/s/ CAROL DANIELS RICHMOND*  
-----  
*Notary Public*

[SEAL]

*CAROL DANIELS RICHMOND*  
-----  
(Printed Signature)

My Commission Expires: 09/30/2001 My County of Residence: HAMILTON



LEASE FOR OFFICE SPACE BETWEEN GREEN REALTY CORPORATION AND LANVISION, INC., DATED APRIL 7, 1997

LEASE

This Lease, executed as of this date of April 7, 1997, by and between GREEN REALTY CORPORATION (hereinafter referred to as "Lessor"), and LAN VISION, INC., a(n) OHIO corporation, (hereinafter referred to as "Lessee").

WITNESSETH:

I. DEMISE AND TERM. Lessor, for and in consideration of the rents herein reserved and the covenants and agreements herein contained and expressed on the part of Lessee to be kept, performed and fulfilled, hereby demises and lets unto Lessee, and Lessee hereby leases from Lessor the Premises (hereinafter sometimes referred to as the Demised Premises) consisting of approximately 10,000 square feet of office space in the building known as 5481 CREEK ROAD, Cincinnati, Ohio, and more particularly shown on the drawing attached hereto as Exhibit A and made a part hereof.

To have and to hold the Demised Premises, together with all privileges, rights and easements thereunto appertaining and belonging unto Lessee, for and during the term of THREE (3) years commencing upon APRIL 15, 1997 (the commencement date), and ending APRIL 14, 2000 unless sooner terminated as herein provided, subject to the rents, terms and conditions herein contained. Lessee shall have the right to possession of the premises on the date of the full execution of this Lease. From said time until the commencement date, Lessee shall assume all obligations under the Lease other than its obligation to pay rent.

II. RENTAL.

A. Lessee shall pay Lessor as Rent for the Demised Premises, subject to Section XXVIII of this Lease, without prior notice or demand, monthly rental as follows:

Year	Monthly Rent	Annual Rent	Rent/SF
April 15, 1997 - April 14, 1998	\$6,250.00	\$75,000.00	\$7.50
April 15, 1998 - April 14, 1999	6,250.00	75,000.00	7.50
April 15, 1999 - April 14, 2000	6,250.00	75,000.00	7.50

Such Rent shall be payable in advance, on the first day of each and every month during said term. Rent shall be due on the first (1st) and late after the fifth (5th).

III. RIGHT TO RENEW.

A. Lessor grants Lessee the right and option to renew the Lease Term for one (1) additional period of three (3) years (April 15, 2000 through April 14, 2003). The Lease Term shall be extended for the renewal period provided:

(a) written notice of Lessee's election to exercise its right and option to renew the Lease Term is given to the Lessor at least one hundred twenty (120) days prior to the expiration of the Lease Term and (b) no default then exists under the Lease. If Lessee renews the Lease Term as aforesaid, then the Lease Term shall be duly extended for the applicable renewal period upon all of the same terms, provisions and conditions, except as hereinafter provided and all references contained in this lease to the Lease Term shall be construed to refer to the Lease Term as extended, whether or not specific reference thereto is made to this Lease.

B. The rent during the renewal period of this Lease, subject to Section XXVIII of this Lease, shall be as follows:

Year	Monthly Rent	Annual Rent	Rent/SF
April 15, 2000 - April 14, 2001	\$6,441.69	\$77,300.00	\$7.73
April 15, 2001 - April 14, 2002	6,633.33	79,600.00	7.96
April 15, 2002 - April 14, 2003	6,833.33	82,000.00	8.20

C. At the time of said renewal, in the event that the approximate 3,000 square feet as identified on Exhibit B is still available for lease and Lessee has not exercised its Right of First Refusal on said space as outlined in Section XXVIII of this Lease, Lessee shall, from the renewal date forward, lease all of said 3,000 square feet of space in addition to the approximate 10,000 square feet identified in Section I of the Lease. Rent for said approximate 3,000 square feet of space shall be at the same rental per square foot as that outlined in Section III B of this Lease.

D. The Rent during the renewal period (determined as aforesaid) shall be paid in equal monthly installments, payable in advance on the first day of each and every month.

IV. UTILITIES. Lessee shall pay or cause to be paid all charges, costs and/or taxes for water, sewer, stormwater management, gas, heat, electricity, light, telephone service, waste disposal or any other similar communication or utility services of any kind or nature used in or rendered to the Demised Premises or any part thereof. All utilities shall be, at the option of Lessor, either separately metered and paid directly by Lessee to the appropriate entity or prorated and billed to Lessee and promptly paid to Lessor by Lessee.

V. MAINTENANCE, JANITORIAL, REPAIR, SURRENDER OF PREMISES, ALTERATIONS. Except as specifically stated elsewhere in this Lease, Lessee shall, at Lessee's sole cost and expense at all times, keep the interior of the Demised Premises and every part and system thereof, in good order, condition and repair, structural and non-structural, including, all equipment and facilities serving the Demised Premises, such as heating, air conditioning, ventilating, lighting, including replacement of bulbs, systems and equipment, fire hydrants, fixtures, walls, ceilings, floors, windows, doors, plate glass, doors, dock doors, levelers and related equipment, and skylights. In

the event that replacement of the HVAC system is necessary, Lessor shall be responsible for said cost. Lessee shall not cause or permit any Hazardous Materials (defined below) to be spilled or released in, on, under or about the Demised Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or acquired, for clean-up of any contamination of, and for the maintenance, security and/or monitoring of the Demised Premises, the elements surrounding same, or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Materials brought onto the Demised Premises by or for Lessee or under its control.

Lessee, in keeping the Demised Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Unless stated otherwise in this Lease, Lessee's obligations shall include restoration, replacement or renewals where necessary to keep the interior of the Demised Premises and all improvements thereon or any part thereof in good order, condition and state of repair. Lessee shall not be responsible for restoration, replacement, or renewals where the need for such restoration, replacement, or renewals is due to reasonable and ordinary wear and tear.

Lessor shall be responsible for all exterior improvements and maintenance, of the Demised Premises, including the roof and structural parts, and capital improvements of the parking areas. Lessee shall give reasonable advance notice to Lessor of required repairs to the roof or structure. Lessor shall be responsible for the removal of snow. To the extent not caused by Lessee's misuse or neglect, Lessor shall be responsible for the maintenance and repair of the plumbing, electrical and mechanical systems with the exception of the maintenance and repair of the HVAC system which shall be Lessee's responsibility only to the extent that the HVAC system serves the Demised Premises.

Lessee further covenants and agrees that at the end of the term, it will deliver up the Demised Premises broom-clean, free of debris and in as good order and condition as they are at commencement hereof or may be put to thereafter, reasonable use and reasonable and ordinary wear and tear excepted. All of the obligations of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's trade fixtures, furnishings, equipment, as well as the removal of any materials that are left by Lessee.

Lessee shall be responsible for all interior janitorial service respecting the Demised Premises including trash removal.

Lessee will make any changes to the Demised Premises required by any law, ordinance, judgment, decree or any official action by any governmental or quasi-governmental agency or authority under any police, health, safety, environmental, fire or other regulation, if said change is a direct result of Lessee's particular use of the Demised Premises.

Lessee agrees to obtain a service contract on the HVAC system with a firm which is reasonably satisfactory to lessor. Such contract shall provide for at least quarterly inspections,

and with written reports to Lessor and Lessee. Lessee is only responsible for the cost of such service contract to the extent that the HVAC system serves the Demised Premises.

Lessee covenants and agrees that it will neither do nor permit to be done any act or thing on the Demised Premises or elsewhere which will invalidate any insurance on the Demised Premises or increase the premiums for insurance thereon. Lessee's current use of the Premises is acceptable.

Lessee may, at its own cost and expense, from time to time during the term of this Lease, make such alterations, additions and changes, structural and otherwise, in and to the Demised Premises as it finds necessary or convenient for its purposes; provided, however: (i) that Lessee shall indemnify and save harmless Lessor from all expenses, liens, claims of damages to any person or property arising out of or resulting from the undertaking or making of such alterations, additions and/or changes; (ii) that such alterations, additions and/or changes shall not decrease the value of the Demised Premises, and in no manner adversely affect the use thereof, or the rights of Lessor, such adverse affect to be determined in Lessor's sole opinion; an (iii) that written consent shall be first obtained from Lessor before undertaking the same, which consent shall not be unreasonably withheld. Such consent may, at the option of Lessor, be either on the basis that Lessee shall restore the Demised Premises to substantially their original condition at the termination of this Lease, or that no restoration will be required. All trade fixtures, trade apparatus, trade machinery and trade equipment placed on the Demised Premises at the expense of Lessee shall remain the property of Lessee, and may be removed by Lessee at any time prior to and upon termination of this Lease. Copies of all plans and specifications, including as-built plans, shall be provided to Lessor by Lessee.

**VI. REAL ESTATE TAXES AND ASSESSMENTS.** Lessor shall be responsible for the payment of all real estate taxes and assessments regarding the Demised Premises.

**VII. LESSEE IMPROVEMENTS.** Lessor, at its sole cost and expense prior to the commencement date, shall construct the following improvements for Lessee.

- Install new carpet in the Demised Premises.
- Paint the Demised Premises.
- Repair/fix all lighting and electrical, where needed.

**VIII. FIRE AND CASUALTY.**

If the Demised Premises shall be damaged by fire, the elements, or other casualty, but are not thereby rendered untenable in whole or in part, Lessor shall promptly cause such damage to be repaired, and the Rent shall not be abated. If by reason of such occurrence, the Demised Premises shall be rendered untenable only in part, Lessor shall promptly cause the damage to be repaired, and the Rent meanwhile shall be abated proportionately as to the portion of the Demised Premises rendered untenable. If the Demised Premises shall be rendered

wholly untenable by reason of such occurrence the Lessor shall cause such damage to be repaired, and the Rent meanwhile shall abate until the Demised Premises have been restored and rendered tenantable, or if the damage is so serious that it cannot reasonably be repaired within sixty (60) days as to Lessee and one hundred twenty (120) days as to Lessor, Lessor or the Lessee may at its election, terminate this Lease by giving to the other party within the thirty (30) days following the date of such occurrence, written notice of its election so to do and in the event of such termination Rent shall be adjusted as of such occurrence.

#### IX. INSURANCE.

A. Lessor shall insure the building and keep it insured during the term against loss or damage by fire or other casualty normally covered by extended coverage endorsements.

B. Lessee shall at all times maintain at its expense the following insurance in respect to the Demised Premises:

1. General public liability insurance against claims for bodily injury, death or property damage occurring on, in or about the Demised Premises and the adjoining streets, sidewalks and passageways, with limits of not less than Two Million Dollars (\$2,000,000.00) with respect to bodily injury or death to any one person, not less than Two Million Dollars (\$2,000,000.00) with respect to any one accident, and not less than One Million Dollars (\$1,000,000.00) with respect to property damage.

2. Workers' compensation insurance or comparable insurance under applicable laws covering all persons employed in connection with any work done on or about the premises for which claims for death or bodily injury could be asserted against Lessor, Lessee or the premises.

3. Plate glass insurance for the full replacement cost of all glass on the premises.

C. All insurance to be provided by Lessee pursuant to this Lease shall be written by companies acceptable to Lessor, and all such insurance shall name as the insured parties Lessor, Lessee, and any property manager for Lessor, and Lessor's mortgagee (as their respective interests may appear).

D. Insurance claims by reason of damage to or destruction of any portion of the Demised Premises shall be payable to Lessor and/or Lessor's mortgagee, or an insurance trustee, if so required by Lessor and/or Lessor's mortgagee.

E. Every policy required by this Lease shall contain an agreement by the insurer that it will not cancel or modify such policy, except after thirty (30) days' prior written notice to Lessor and/or Lessor's mortgagee, and that any loss otherwise payable thereunder shall be payable notwithstanding any act or negligence of the insured, and notwithstanding: (i) the occupation or use of the Demised Premises for purposes more hazardous than permitted by the terms of such

policy; (ii) any foreclosure or other action or proceeding taken by any mortgagee or notice of sale relating to the premises; or (iii) any change in title to or ownership of the Demised Premises.

F. Lessee shall deliver to Lessor, within seven (7) days from the date of the execution and delivery of this Lease, certificates of the insurers satisfactory to Lessor and Lessor's mortgagee, evidencing all the insurance which is required to be maintained by Lessee hereunder, and Lessee shall maintain such insurance continuously throughout the term hereof. Lessee shall, as soon as practicable, but in all events within thirty (30) days of the renewal date of any such insurance, deliver additional certificates of the insurers satisfactory to Lessor, evidencing the renewal of such insurance. Should Lessee fail to effect, maintain or renew any insurance provided for in this section or to pay the premium therefor, or to deliver to Lessor any of such certificates as required herein, then and in any of said events Lessor, at its option, but without obligation so to do, may procure such insurance, and any sums expended by it to procure such insurance shall be additional rent hereunder, and shall be repaid by Lessee within fifteen (15) business days following the date on which such expenditure shall be made by Lessor.

G. Lessee agrees to carry adequate fire and extended coverage on all of Lessee's personal property located in the Demised Premises, including leasehold improvements, inventory, trade fixtures and other property installed or placed on the Demised Premises by Lessee.

X. INDEMNITY AND RIGHT OF ENTRY. Lessee will indemnify and hold harmless Lessor from all claims, demands and damages for injuries to persons or property arising solely from occupancy or use of the Demised Premises by Lessee, and from any and all other claims, demands, liens, damages, fines or penalties of whatever name, nature of kind, solely chargeable to, or payable for, or in respect of the use or occupancy of the Demised Premises by Lessee, or from any act or omission of Lessee, its servants, its agents, representatives, tenants, guests, invitees, licensees or any other person, firm or corporation in, about or adjacent to the Demised Premises. The foregoing indemnification shall not apply to claims, demands, or damages resulting from Lessor's negligence or willful misconduct. In the event that any suit, action or proceeding predicated upon (1) an alleged breach of undertaking by either party under the terms of this Lease or (2) for or on account of which one party has covenanted to indemnify the other party under the terms of this Lease or could be bound by law to so indemnify the other party, is instituted by one party against the other party, the non-prevailing party shall pay to the prevailing party all costs, expenses and attorney fees incurred by or imposed upon the prevailing party in prosecution or defense of any such suit, action, or proceeding.

Lessee covenants and agrees that Lessor, or Lessor's agents or representatives, shall have the right, during normal business hours, upon twenty-four (24) hours notice to enter upon the Demised Premises for the purpose of examining the same and to observe the compliance or noncompliance by Lessee with the terms of this Lease, and for the purpose of exhibiting the same to prospective lessees with prior notice of the time during the last six (6) months of this Lease or as otherwise agreed between the parties. Lessee agrees to permit Lessor or Lessor's agents or representatives to enter into and upon the Demised Premises at any time in case of emergency.

XI. PROVISION FOR NOTICE. All notices which may be proper or necessary for the parties to serve upon each other shall be served by registered or certified mail, postage prepaid, or by nationally recognized overnight delivery services as follows:

To Lessor: GREEN REALTY CORPORATION  
9900 CARVER ROAD, SUITE 200  
CINCINNATI, OHIO 45242

To Lessee: LAN VISION, INC.  
ONE FINANCIAL WAY, SUITE 400  
CINCINNATI, OH 45242  
ATTN: GENERAL COUNSEL

or such other address as either party may direct in writing from time to time. Service of any such notice or demand shall be deemed completed twenty-four (24) hours after deposit thereof in the U.S. mail, or the day after delivery to the overnight delivery service.

## XII. TITLE AND CONDITION; HAZARDOUS MATERIALS.

A. The Demised Premises are leased subject to: (i) the existing state of the title thereof as of the commencement of the term of this Lease; (ii) any state of facts which an accurate survey or physical inspection thereof might show; and (iii) all zoning regulations and other laws and regulations now in effect or hereafter adopted by any governmental authority having jurisdiction. Except as specifically set out herein, the land, buildings, structures and other improvements comprising a part of the Demised Premises are leased subject to their condition as of the commencement of the term of this Lease and without representation or warranty of any kind by Lessor, including, without limitation, any representation or warranty with respect to environmental matters.

B. HAZARDOUS MATERIALS. To the best of its actual knowledge, Lessor has at all times, including the present, complied with all federal, state and local environmental laws, rules and regulations applicable to its operations. Except as disclosed to lessee, no hazardous substance, contaminant, solid waste or material, toxic substance, petroleum product, distillate or residue, or pollutant (as those or similar terms are defined under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 USC section .9601 et seq., the Resource Conservation and recovery Act of 1976, 42 USC sections .6901 et seq., or any other applicable federal, state and local environmental law, statute, ordinance, order, judgment, rule ore regulation relating to the environment or the protection of human health ("Environmental Laws") (collectively, "Hazardous Materials"), have been released, emitted or discharged by Lessor, nor does Lessor have any knowledge of such release, emission or discharge by any other person(s) or entities.

XIII. ASSIGNMENT OR SALE. Lessee may not assign this Lease, nor sublet the Demised Premises or any portion thereof, without first obtaining the prior written consent of Lessor, not to be unreasonably withheld. Any consent by Lessor to a assignment or subletting shall not in any

manner be construed to relieve Lessee or any assignee or sublessee from obtaining the consent in writing of Lessor to any further assignment or subletting, and in all events, Lessee shall remain primarily liable for the payment of rent herein reserved and for the performance of all of the other terms of this Lease required to be performed by Lessee.

Lessor may assign this lease or any partial interest herein, any may also sell, convey and mortgage the Demised Premises, subject to the term of this Lease.

XIV. QUIET ENJOYMENT. Lessor covenants and agrees that, subject to any mortgages now of record or hereafter placed of record, it is the owner of the Demised Premises and Lessee, if the covenants of this Lease to be paid and performed by Lessee are paid and performed, shall have peaceable possession and quiet enjoyment of the Demised Premises throughout the term of this Lease without any hindrance or molestation by Lessor, or any person claiming lawfully under Lessor.

XV. DEFAULT.

A. The occurrence of any one or more of the following events shall be a default and breach of this Lease by Lessee:

1. Lessee shall fail to pay any monthly installment of rent within five (5) days after written notice from Lessor that the same shall be due and payable.
2. Lessee shall fail to perform or observe any term, condition, covenant or obligation, other than the payment of rent, required to be performed or observed by it under this Lease for a period of thirty (30) days after notice thereof from Lessor; or such longer period, if the term, condition, covenant or obligation to be performed within such thirty (30) day period cannot, due to its nature, be performed within such thirty (30) day period and Lessee commences or perform within such thirty (30) day period, and thereafter diligently undertakes to complete the same.
3. A trustee or receiver shall be appointed to take possession of substantially all of Lessee's assets in, on or about the Demised Premises or of Lessee's interest in this Lease (and Lessee does not regain possession within sixty (60) days after such appointment); Lessee makes an assignment for the benefit of creditors; or substantially all of Lessee's assets in, on or about the Demised Premises or Lessee's interest in this Lease are attached or levied upon under execution (and Lessee does not discharge the same within sixty (60) days thereafter).
4. A petition in bankruptcy, insolvency, or for reorganization or arrangement is filed by or against Lessee, pursuant to any federal or state statute (and, with respect to any such petition filed against it, lessee fails to secure a stay or discharge thereof within sixty (60) days after the filing of the same).

B. Upon the occurrence of any event of default, as set forth above, Lessor shall have the following rights and remedies, in addition to those allowed by law or equity, and one or more of which may be exercised after ten (10) days notice to Lessee:

1. Lessor may apply the security deposit and/or re-enter the Demised Premises and cure any default of Lessee, in which event Lessee shall reimburse Lessor as additional rent for any cost and expenses which Lessor may incur to cure such default.

2. Lessor may terminate this Lease as of the date of such default, in which event: (i) neither Lessee, nor any person claiming under or through Lessee, shall thereafter be entitled to possession of the Demised Premises, and Lessee shall immediately thereafter surrender the premises to Lessor; (ii) Lessor may re-enter the Demised Premises and dispossess Lessee or any other occupants of the premises by force, summary proceedings, ejectment or otherwise, and may remove their effects, without prejudice to any other remedy which Lessor may have for possession or arrearages in rent; and (iii) notwithstanding the termination of this Lease, Lessor may re-let all or any part of the Demised Premises for a term different from that which would otherwise have constituted the balance of the term of this Lease, and for reasonable rent and on reasonable terms and conditions different from those contained herein, whereupon Lessee shall be obligated to pay to Lessor as liquidated damages the difference between the rent provided for herein and that provided for any Lease covering a subsequent re-letting of the Demised Premises, for a period which would otherwise have constituted the balance of the term of this Lease, together with a proportional amount of all of Lessor's reasonable costs and expenses for preparing the premises for re-letting, including all repairs, tenant finish improvements, brokers' and attorneys' fees, and all loss or damage which Lessor may sustain by reason of such termination, re-entry and re-letting, it being expressly understood and agreed that the liabilities and remedies specified in clauses A and B above shall survive the termination of this Lease.

3. Lessor may sue for injunctive relief, or to recover damages for any loss resulting from the breach.

XVI. WAIVER. It is further mutually covenanted and agreed between the parties hereto that no waiver of any covenant, agreement, stipulation or condition of this Lease shall be construed to be a waiver of any succeeding breach of the same covenant, agreement, stipulation or condition; that the payment by Lessee, or the receipt by Lessor, of rent with knowledge of the breach by the other party of any covenant hereof shall not be deemed a waiver of such breach; and further, that all covenants, stipulations, conditions, and agreements herein contained shall run with the land, and bind and inure to the benefit of, as the case may require, the heirs, executors, administrators, successors and assigns of the parties hereto and to grantees of Lessor, as fully as if such words were written whenever reference to Lessor and Lessee occur in this Lease, except that no assignment by lessee in violation of the provisions of this Lease, shall vest any right in the assignee.

XVII. MORTGAGES. Lessor shall have the right to transfer, assign, mortgage and convey in whole or in part, the Demised Premises, and any and all rights of Lessor under this Lease, and nothing herein shall be construed as a restriction upon Lessor so doing. This Lease shall be

subject and subordinate to any mortgage or other financing arrangement and to any renewal modification, consolidation, replacement and extension thereof now or thereafter placed upon or affecting the Demised Premises, or any part hereof, provided that so long as Lessee is not in default of any of the terms and conditions hereof, Lessee's rights, privileges and possession hereunder shall not be disturbed. Although no instrument or act on the part of Lessee shall be necessary to effectuate such subordination, Lessee will, upon request, execute and deliver such further instruments subordinating this Lease to the lien of any such mortgages or other financing arrangements as may be desired by the mortgagee or other lender. Lessee hereby appoints Lessor its attorney-in-fact, irrevocably, to execute and deliver any such instrument for Lessee, should Lessee fail to execute and deliver same within ten (10) days of any request therefor. In the event of any sale or exchange of the Demised Premises by Lessor and assignment by Lessor hereof and acceptance by assignee of all responsibilities of Lessor. Lessor shall be and is hereby entirely free and relieved of all liability under any and all of its covenants and obligations contained in or derived from this Lease occurring after the consummation of such sale or exchange and assignment.

#### XVIII. CONDEMNATION.

A. If, during the term of this Lease, all of the Demised Premises, or such a substantial part of the premises so as to render the remaining as the same may be restored, unusable for the purposes for which the premises were leased, shall be taken by appropriation for public, or quasi-public use, under the right of eminent domain, then all of the proceeds of such appropriation shall be paid to Lessor, and Lessee shall have no claim to any part thereof, except as set out below, and this Lease shall be canceled as of the date of such taking, provided, however, Lessee may claim such damages it suffered with respect to its trade fixtures, personal property and its improvements to the real property from the condemning authority.

B. If, during the term of this Lease, a part but not all of the Demised Premises shall be taken by appropriation for public, or quasi-public use, under the right of eminent domain and this Lease shall not terminate or be terminated under the provisions of subparagraph XVIII (A) hereof, then this Lease shall not be canceled, and shall apply to that part of the Demised Premises not so taken. In such event, all of the proceeds shall be paid to Lessor, and Lessee shall not be entitled to any part thereof (except for a reasonable amount for the depreciated value of its improvements), but the rental for the remaining term and the Required Purchase Price, as defined below, shall be equitably adjusted.

XIX. LIENS. Lessor shall have a first and best lien, paramount to all others upon every right and interest of Lessee to and in the Demised Premises and to and in this Lease, and in and to all improvements which become part of the real estate constituting the premises, as security for the payment of the entire amount of rent payable under this Lease, and for the payment of the entire amount of rent payable under this Lease, and for the payment of all monies payable under any obligation or engagement of Lessee contained in this Lease, and as security for the performance and observance of all and singular the covenants, agreements, conditions and obligations of this Lease to be performed and observed by Lessee.

XX. COMPLIANCE WITH LAWS, INSURANCE POLICIES, ETC.; USE. Further, Lessee, at its expense, shall cause the Demised Premises to comply with all federal, state, county, municipal and other governmental laws, statutes, rules, orders, regulations and ordinances applicable to the Demised Premises, or any part thereof or the use thereof, whether or not any such statutes, laws, rules, orders, regulations or ordinances which may hereafter be enacted, involve a change of policy if said compliance is the direct result of Lessee's particular use of the Demised Premises. Lessee shall obtain and pay for all permits and appraisals required for Lessee's occupancy of the Demised Premises, and shall promptly take all substantial and non-substantial actions necessary to comply with all statutes, ordinances, rules, regulations, orders and requirements regulating the use by Lessee of the Demised Premises, including, without limitation, the Occupational Safety and Health Act. All materials used or kept on or about the Demised Premises shall be self-contained in governmentally approved containers which shall not be opened, disturbed or stored on the Demised Premises. Lessee shall not mix, process or handle hazardous contents on the Demised Premises. Lessee shall comply with all Environmental Laws and laws pertaining to the control of Hazardous Materials, and shall indemnify and hold Lessor and Lessor's lender(s) harmless from any and all loss, claims, damage or cost, including attorneys' fees arising out of or resulting from its failure to do so, civil and criminal penalties, natural resource damages, and diminution in value of the Demised Premises, or arising out of the presence of hazardous waste, bio-hazardous waste, asbestos, petro chemicals, toxic substances or the presence of other environmentally detrimental matter. Without limiting the foregoing, Lessee shall acquire all applicable permits required for the Demised Premises regarding stormwater discharges or run-off, including any National Pollutant Discharges elimination system permits, and shall comply with all applicable requirements, including monitoring requirements. Lessor, at its option, may elect to acquire permits, perform any and all stormwater discharge elimination plans and monitoring as required by any governmental authority, and Lessee agrees to reimburse Lessor for same. Lessee will not permit nor place any fuel storage tanks or pumps on the Demised Premises, and shall keep the Demised Premises free of environmental hazards of any kind or nature. Lessee shall only use the Demised Premises as follows: OFFICES.

XXI. ARTICLE HEADINGS. The article headings in this Lease are inserted only as a matter of convenience for reference and in no way define, limit or describe the scope or intent of this Lease or affect this Lease.

XXII. MEMORANDUM OF LEASE. In the event either Lessor or Lessee determine to record this Lease, a short form memorandum of Lease shall be recorded in lieu of the original Lease. Such short form memorandum shall be executed by both parties, but shall not in any way vary or revoke the terms of this Lease.

XXIII. ESTOPPEL CERTIFICATE. Lessee shall from time to time, upon not less than ten (10) days prior written request by Lessor, execute, acknowledge and deliver to Lessor an estoppel certificate, certifying that this Lease is in full force and effect; the dates to which rents have been paid; and whether Lessor is in default, and if so, specifying the nature of the default; and that the Lease is in full force and effect, as modified, and listing instruments of modification. It is intended that such estoppel certificate may be relied on by a prospective purchaser of Lessor's interest, or mortgagee or assignee of any mortgage upon the Demised Premises.

XXIV. SECURITY DEPOSIT. Concurrently with Lessee's execution hereof, Lessee has deposited with Lessor the sum of SIX THOUSAND TWO HUNDRED FIFTY Dollars (\$6,250.00), the receipt of which is hereby acknowledged, as security for the payment by Lessee of the rent or other charges to be paid and for the faithful performance by Lessee of all of the terms, conditions and covenants of this Lease. If at any time during the term of this Lease, Lessee shall be in default in the performance of any provisions of this Lease, Lessor shall have the right to use the security deposit, or so much thereof as is necessary, in payment of rental or other charges in default, reimbursement of any expenses incurred by Lessor, and in payment of any damages incurred by Lessor by reason of Lessee's default. If any portion of said deposit is so used or applied, Lessee shall, within ten (10) days after written demand therefore from Lessor, remit to Lessor a sufficient amount out restore the security deposit to its original amount.

In the event the security deposit has not been utilized as aforesaid, the security deposit, or so much thereof as has not been utilized for such purposes, shall be refunded to Lessee, without interest, upon full performance of all of the terms of this Lease by Lessee, within ten (10) days of the termination of this Lease.

Lessor shall have the right to commingle the security deposit with other funds of Lessor. Lessor shall have the right to deliver the security deposit to any successor in interest to Lessor's interest in the Demised Premises. Thereupon, Lessor shall be discharged from further liability with respect to such security deposit provided assignee assumes all responsibilities (past and future) of Lessor. If claims of Lessor exceed the security deposit, Lessee shall remain liable for the balance of such claims.

Lessee may not assign its right to the security deposit in whole or in part.

XXV. NO COUNTERCLAIM, ABATEMENT, ETC.

There shall be no abatement, deduction or offset whatsoever with regard to any amounts due from the Lessee to the Lessor under Sections II, III or XXVIII of this Lease.

XXVI. LIMITATION OF LESSOR'S PERSONAL LIABILITY. Lessee specifically agrees to look solely to Lessor's interest in the Real Property and the Building for the recovery of any judgment from Lessor, it being agreed that neither Lessor nor any of its partners shall ever be personally liable for any such judgment. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that might otherwise have to obtain injunctive relief against Lessor or Lessor's successors in interest, or any other action not involving the personal liability of Lessor.

XXVII. HOLDING OVER. In the event of holding over by Lessee after expiration or termination of this Lease, Lessee shall pay one hundred fifty percent (150%) the Rent (calculated on the basis of Rent with respect to the month immediately preceding the month in which expiration or termination occurs) for the entire holdover period. No holding over by Lessee after the term of this Lease shall be construed to extend the term of this Lease. In the event of any unauthorized holding over, Lessee shall also indemnify Lessor against all claims for damages by any other tenant to whom Lessor may have leased all or any part of the Demised Premises covered hereby

effective upon the termination of this Lease. Any holding over with the consent of Lessor in writing shall thereafter constitute this Lease a lease from month to month.

XXVIII. RIGHT OF FIRST REFUSAL. Lessee shall have the first right of refusal to lease the approximately 3,000 square feet of space marked on Exhibit B, attached hereto and incorporated herein, within twenty one (21) days of written notice from Lessor. Rental for said approximate 3,000 square feet shall be the same rental per square foot as Lessee is paying under Section II or Section III of the Lease, with any applicable increases. This Right of First Refusal may only be exercised on the ENTIRE approximate 3,000 square feet of space marked on Exhibit C. At such time if and when said right of first refusal is exercised, the Demised Premises shall be defined in Section I of the Lease as 13,000 square feet of space.

XXIX. MISCELLANEOUS.

A. If Lessor shall fail to pay any installment of Rent within five (5) days after the date the same becomes due and payable, then Lessee shall also pay to Lessor a late payment service charge of five percent (5%) of the payment so overdue, in addition to and not in limitation of, any other remedy or right of Lessor herein.

B. If any provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

C. This Lease shall be construed and interpreted under the laws of the State of Ohio.

D. PARKING. Lessee shall be entitled to the use of 40 parking spaces on site as identified as on the attached Exhibit C, incorporated herein.

E. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications as Lessor deems necessary and desirable, and to cause the recordation of plats and restrictions, so long as such easements, rights, dedications and restrictions do not unreasonably interfere with the use of the Demised Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor.

F. Lessor represents that Lessor owns the real estate in which the Demised Premises are located, and has the authority to provide quiet enjoyment of the Demised Premises, subject to liens, encumbrances and other matters of record.

G. EXHIBITS. Exhibits hereto are:

Exhibit A: Description of Premises

Exhibit B: Right of First Refusal Space

Exhibit C: Parking

H. Beginning on execution hereof, Lessee agrees to promptly deliver to Lessor certified copies of Lessee's financial statements.

I. AMENDMENT. This Lease may not be amended, altered, or changed except by an instrument in writing signed by both parties hereto.

I. ENTIRE AGREEMENT. This Lease contains the entire agreement between the parties hereto and all previous negotiations leading thereto. Lessee acknowledges and agrees that Lessee has not relied upon any representations or any prior written or oral promises, warranties or agreements except such as are provided herein. The headings of this Lease are for purposes of reference only and shall not limit or define the meaning hereof. This Lease may be executed in any number of counterparts, each of which shall be an original, but all of which shall constitute one instrument.

IN WITNESS WHEREOF, Lessor and Lessee have hereunto set their hands the day and year first above written.

*WITNESSES:*

*Signed and acknowledged in the presence of:*

*/s/ Angela M. Woodward*

-----

*/s/ Kimberly Hume*

-----

*LESSOR:*

*Green Realty Corporation*

*By: /s/ Andrew Green*

-----

*Its: President*

-----

*LESSEE:*

*Lan Vision, Inc.*

*Signed and acknowledged in the presence of:*

*/s/ Alan J. Hartman*

-----

*/s/ Kimberly S. Farris*

-----

*By: /s/ Thomas E. Perazzo*

-----

*Its: Chief Financial Officer*

-----

Exhibit A [Description of Premises is a floor plan map]

Exhibit B [Right of First Refusal space is a floor plan map]

Exhibit C [Parking is a parking lot map]

LESSOR NOTARY  
-----

STATE OF            }  
                          } SS:  
COUNTY OF        }

BE IT REMEMBERED that on this 8 day of April, 1997 before me, the

subscribed notary public, personally appeared Andrew Green who, I am satisfied, is the person who signed the within instrument as President of Green Realty, and he thereupon acknowledged that said instrument made by such corporation was signed, sealed with its corporate seal and delivered by him as such officer, and is his voluntary act and deed and is the voluntary act and deed of such corporation, made by virtue of authority from its Board of Directors.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

*/s/ Aristeia Argeros*  
-----  
*Notary Public*

My commission expires:

**Sept. 23, 2001**

**[NOTARIAL SEAL]**

**LESSEE NOTARY**

STATE OF Ohio                    }  
  } SS:  
COUNTY OF Hamilton            }

BE IT REMEMBERED that on this 4th day of April, 1997 before me, the subscribed notary public, personally appeared Thomas E. Perazzo who, I am satisfied, is the person who signed the within instrument as Chief Financial Officer of LanVision, Inc., and he thereupon acknowledged that said instrument made by such corporation was signed, sealed with its corporate seal and delivered by him as such officer, and is his voluntary act and deed and is the voluntary act and deed of such corporation, made by virtue of authority from its Board of Directors.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

*/s/ Carol Daniels Richmond*  
-----  
*Notary Public*

*My commission expires:*  
*September 30, 2001*  
-----

**FIRST AMENDMENT TO LEASE BETWEEN FAIRVIEW PLACE ASSOCIATES LIMITED PARTNERSHIP, LESSOR AND LANVISION, INC., LESSEE, DATED AUGUST 12, 1996**

**FIRST AMENDMENT TO LEASE BETWEEN  
FAIRVIEW PLAZA ASSOCIATES LIMITED PARTNERSHIP, LESSOR  
AND LANVISION, INC., LESSEE**

THIS AMENDMENT, made and entered into this 12th day of August, 1996, by and between FAIRVIEW PLAZA ASSOCIATES LIMITED PARTNERSHIP, Lessor, and LANVISION, INC., Lessee;

WHEREAS, the parties hereto have previously entered into a Lease Agreement, dated February 26, 1996, regarding 16,659 rentable square feet of office space at 5970 Fairview Road, Suite 250.

WHEREAS, the parties hereto desire to enter into this First Amendment to Lease as hereinafter set forth:

1. **RELOCATION:** Lessee will relocate to Suite 700 of 5970 Fairview Road, on October 1, 1996. Lessee's obligation for Suite 250 of 5970 Fairview Road will be null and void at October 1, 1996.

2. **NEW SQUARE FOOTAGE:** The new square footage of Suite 700 is 3,770 rentable square feet (3,366 useable square feet).

3. **LEASE TERM:** The new term will begin October 1, 1996, and terminate September 30, 1999.

4. **TENANT IMPROVEMENTS:** Lessor will provide the following improvements at no cost to Lessee, per the floorplan, which is attached as Exhibit A:

- a) Demolish and construct the walls necessary to achieve the attached plan.
- b) Provide and install the electrical outlets as noted on the plan.
- c) Make all necessary Heating, Ventilation, Air Conditioning, lighting and sprinkler adjustments.
- d) Repair or replace any missing or damaged vertical exterior window blinds
- e) Provide and install 30 ounce building standard "Baritone Black" carpet and matching carpet base throughout, except for the Server Room, and the Break Room.
- f) Vinyl Composition Tile in the Break and Server Room.

- g) Paint walls throughout with Duron "Polar Bear". Paint shelves with semi-gloss "Polar Bear".
- h) Install Wall mounted Oak cabinets above the existing base cabinets.
- I) Install new laminate counter top on existing base cabinets.
- j) Provide and install adjustable bracket shelving (to be painted), as noted on Exhibit A.
- k) Install laminate top counter as noted on Exhibit A.
- l) Provide initial building keys and keycards.
- m) Provide and install building standard suite entry and lobby directory signage.

It is understood and agreed that these specifications and Exhibit A are accepted and approved by Lessee, as attached. Lessee will provide the buildout as noted, at no cost to Lessee. Should Lessee desire to make changes or additions that result in additional costs, Lessor will provide a change order with the additional costs noted for Lessee's approval before performing the work, and Lessee will be responsible for those additional costs.

5. RENTAL CONCESSION: Lessee shall receive free rent on 460 rentable square feet for the months of October, November and December 1996. The monthly rental for that period will be \$4,551.25. Full rental will begin January 1, 1997.

6. RENTAL RATE: The base rental rate for the new space will be \$16.50 per rentable square foot. The new monthly base rental, effective October 1, 1996 will be \$5,183.75.

7. RENTAL ESCALATIONS: The base rental will be escalated per the original lease as specified in Paragraphs 11 and 12 on page 2 of the original lease.

8. RELEASE OF 5970 FAIRVIEW ROAD, SUITE 250: Upon completion of Suite 700, which will be on or before October 1, 1996, Lessee's rental obligation for Suite 700 will begin, and Lessee's obligation for 5970 Fairview Road, Suite 250 will be null and void.

9. SECOND RIGHT OF REFUSAL: Subject to Alamo Rent A Car's existing right of 1st Refusal, Lessee will have 10 business days from notification from AAC that another bonafide prospective tenant is interested in leasing the adjacent 785 rentable square feet, to indicate in writing, its intent to lease the space. The expansion would be available to LanVision under the same terms and conditions as offered to the bonafide prospective tenant. Failure to notice Lessor in writing, constitutes refusal of the offer.

EXCEPT as hereinabove stated, the terms and conditions of the original Lease shall remain in full force and effect.

WITNESS our hands and seals, this 12th day of August, 1996.

**LESSOR: FAIRVIEW PLAZA ASSOCIATES LIMITED PARTNERHSHIP,  
a North Carolina Limited Partnership, Its General Partner**



**Exhibit 11.1**  
**LANVISION SYSTEMS, INC.**

**STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS**

	Fiscal Year		
	1996	1995	1994
Net (loss)	\$ (4,668,540)	\$ (326,229)	\$ (572,060)
Average shares outstanding	8,283,761	4,488,000	4,488,000
Stock options:			
Total options	-	586,858	586,858
Assumed treasury stock buyback	-	(380,533)	(380,533)
Convertible redeemable preferred stock assumed converted	-	1,496,000	1,496,000
Number of shares used in per common share computation	8,283,761	6,190,325	6,190,325
Net (loss) per share of common stock	\$ (.56)	\$ (.05)	\$ (.09)

**Exhibit 13.1**  
**LANVISION SYSTEMS, INC.**

**ANNUAL REPORT TO STOCKHOLDERS**

**LanVision Systems, Inc.**

**1996 Annual Report**

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

[Company Logo]

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## Stock Prices

		HIGH	LOW	CLOSE
		----	---	-----
1st	Quarter	\$ 18.75	\$ 14.50	\$ 18.37
2nd	Quarter	18.75	8.50	9.50
3rd	Quarter	14.50	7.75	8.62
4th	Quarter	9.00	6.25	7.12

The Company began trading on The Nasdaq Stock Market on April 18, 1996, the date of the initial public offering.

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.

**Corporate Profile**

In today's dynamic healthcare environment, hospitals and integrated delivery systems are continually struggling to increase the quality and level of care while reducing their overall costs. However, many healthcare executives claim that the lack of ready access to health information by those who need it remains the foremost hurdle to achieving these goals.

LanVision was founded in 1989 with the sole purpose of helping hospitals and integrated healthcare delivery systems solve their information access and document management problems through advanced document imaging and workflow technologies.

LanVision is now a leading provider of healthcare information access systems that enable hospitals and integrated healthcare networks to capture, manage, store and access vast amounts of clinical and financial patient information across the enterprise. Unlike other systems that have limited usage at the point of patient care, LanVision's systems are used intensively by a larger number and variety of users than any other systems available today. As a result, LanVision's clients, some of the largest and most respected healthcare provider systems in the country, are able to manage and deliver information more effectively than their competitors.

LanVision has established itself as a national leader in information systems integration. LanVision's professional staff members are committed to quality and have the necessary strategic and technical expertise to develop and deliver the information systems that today's healthcare providers need.

**LETTER TO STOCKHOLDERS**

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Dear Stockholder:

I am pleased to present our first Annual Report as a public company. During 1996, we completed our initial public offering, through the issuance of 2,912,500 shares of common stock with net proceeds of approximately \$34 million. This capital gives us the necessary resources to enable LanVision to become a market leader in providing document imaging and workflow applications to the healthcare industry.

For the year ended January 31, 1997 (fiscal 1996), LanVision's annual revenues were approximately \$10 million, a 105% increase over fiscal 1995. During the year, we significantly expanded our staff from 28 at January 31, 1996, to 94 at January 31, 1997. This expansion, in all areas of operations, was planned to ensure LanVision captures a leading share of our market. We estimate the healthcare document imaging and workflow market is only 5% to 10% penetrated, and industry analysts expect the electronic medical record market to grow at a 40% to 70% compound growth rate over the next five years.

Notwithstanding our expansion and the market growth potential, healthcare providers responded more slowly than we expected in 1996, and sales cycles have been longer than planned. This has adversely affected our revenues, which were 64% of our fiscal 1996 internal plan. Hospitals and medical facilities have been cautious as they attempt to understand all the new technological tools at their disposal, differentiate among the available solutions and prioritize their needs. We believe the market demand is starting to accelerate as hospitals and integrated delivery networks begin to better appreciate the significant cost savings that can be achieved with LanVision's document imaging and workflow applications.

Fiscal 1996 was a year of tremendous investment by LanVision in people, marketing, training, equipment and facilities. The combination of our shortfall in anticipated revenues and the expansion of our organization resulted in a fiscal 1996 net loss of approximately \$4.7 million. Although the loss was significant, management believes the investment made in 1996 will yield important long term benefits, creating a firm foundation to take advantage of projected market demand.

In late 1996 and the first half of 1997, LanVision has and will introduce more software products than at any other time in LanVision's history. In 1996, our On-Line Chart Completion product was installed in two beta sites, and general release is expected in the first half of 1997. Existing and prospective customers are extremely excited about this product and its cost savings potential. In 1996, LanVision also released MultiView, an advanced viewer that allows users to easily access electronic and image-based healthcare information longitudinally across all document types or patient encounters contained in the patient's lifetime medical record. It has also received excellent reviews.

In the first half of 1997, LanVision will release OmniVision, a 32 bit image and workflow-enabling application that allows users of third-party information systems to seamlessly access document images and other multimedia information. Historically, clinicians and administrative staff have not had access to this data through their existing systems, and accordingly, have not had complete electronic access to all the information contained in the patient's medical record. We believe that hospitals and clinics using OmniVision will rapidly expand the use of our other document imaging and workflow products. Currently,

we are image-enabling the 3M Healthcare Enterprise Management System, Oacis, PHAMIS, MasterChart and AutoCyte clinical information systems. We will also release Correspondence, a ChartVision module that allows medical facilities to quickly access electronically stored documents and distribute them to third parties. Also in 1997, we intend to release AccountVision version 2.0, our patient accounting product. This enhanced product will share a common database with our flagship medical record product, ChartVision, and provide major cost saving benefits to our customers. In the second half of 1997, we will offer WebView, our Internet viewer that will significantly expand the accessibility of medical records via the Internet.

The quality of our products and the strength of our organization is attracting some of the strongest strategic marketing partners in the healthcare industry including: Lanier Healthcare Systems; 3M Health Information Systems; Daou Systems, Inc.; and Crowe, Chizek and Company LLP. Most recently, LanVision and Lanier Healthcare Systems have concluded an agreement in principle for an important three year extension to our relationship. Under the new enhanced relationship, both companies will be investing significant resources in the distribution of LanVision products through the extensive Lanier sales organization. Our relationships are built upon mutual trust and respect, and LanVision intends to further expand its third-party distribution channels both domestically and internationally.

We are building a first class sales and marketing organization. This group has grown from 8 at January 31, 1996, to 30 at January 31, 1997. The sales and marketing group has overcome a steep learning curve in 1996, and we expect to see the benefits in 1997. Throughout 1996, we ran a series of customer testimonial ads in key healthcare publications, participated in leading industry trade shows, and implemented a telemarketing program. Our public profile, new partners, advertising, trade show participation and telemarketing have expanded our presence tremendously in the market.

During 1996, Stanford Health Services, affiliated with Stanford University, purchased our OmniVision product to image-enable their Oacis clinical data repository across their healthcare enterprise. In addition, new agreements were signed with The Toledo Hospital and Flower Hospital of Toledo, Ohio, which are part of the ProMedica Health System, and through Lanier, we added St. Francis Medical Center of Hartford, Connecticut. We are pleased to have them join the most prestigious customer base in the industry. We are grateful to each of our customers and their employees for their trust and confidence in LanVision. We intend to make each of them very successful in and through the use of our systems, and their success should bring us future success.

LanVision has been through a significant transition in 1996, and we have experienced some growing pains trying to assimilate our many new employees. However, we have accomplished very much in a short period of time. We are confident that we have invested wisely in the talent and technology necessary to achieve revenue growth in the future. We will continue to expand distribution, support and development, in 1997, at a pace commensurate with market growth opportunities.

We are thankful for your confidence, and look forward to a successful 1997.

Sincerely,

*/s/ J. Brian Patsy*

*J. Brian Patsy  
President and Chief Executive Officer*

"Our physicians, clinicians and HIM department clients now have better access to health information with improved security . . . "We are eliminating our paper files and greatly reducing our microfiche costs."

**DIRECTOR OF QUALITY AND HEALTH INFORMATION MANAGEMENT ALBERT EINSTEIN HEALTHCARE NETWORK  
PHILADELPHIA, PENNSYLVANIA**

**CHARTVISION**

**HIGHLY EVOLVED ELECTRONIC PATIENT RECORD APPLICATION.**

The ChartVision application provides physicians, clinicians and health information management professionals throughout the healthcare enterprise with immediate and simultaneous access to the complete patient record. ChartVision is a highly-evolved electronic patient record application that provides streamlined processing and fast easy access to all forms of health information regardless of the source. Unlike some systems that are cumbersome and complex, ChartVision is so easy to use that physicians and clinicians actually prefer it over paper.

ChartVision includes the following modules:

**Medical Records Services**

Offers automated health information access to the patient medical record, without regard to the medium used to capture or record the information.

**On-Line Chart Completion**

Automates the identification of deficiencies in patient charts and also electronically routes the incomplete documents to the appropriate medical and administrative personnel for on-line processing, completion, electronic signature and reporting.

**Correspondence**

Scheduled for release in the first half of 1997. Will fulfill internal and external requests for information and also provide the ability to electronically search, print, mail, e-mail or fax information, as well as invoice third-party requesters.

**VisionFlow**

Offers intelligent electronic routing of documents as well as sophisticated management tools and reporting to support business process reengineering efforts.

**ACCOUNTVISION**

**PATIENT FINANCIAL SERVICES APPLICATION.**

The AccountVision application helps hospitals and integrated delivery networks streamline their business services operations by tracking patients from pre-admission and registration through account follow-up and final payment. As a result, cash flow is greatly improved.

The system helps organizations actively manage work in process by monitoring staff workload, reassigning work to avoid backlogs, and focusing work on appropriate revenue-producing tasks.

AccountVision helps to increase productivity by automatically routing job-specific documents based on user-defined parameters.

The system helps organizations improve communication by providing immediate and simultaneous access to documents as well as Healthcare Information Systems, promoting prompt response to patient and third-party inquiries.

Like ChartVision, AccountVision will utilize the Correspondence and VisionFlow modules.

## **OMNIVISION**

### **AN IMAGE-ENABLING AND WORKFLOW TECHNOLOGY.**

Scheduled for release in the first half of 1997, the OmniVision application will provide physicians and clinicians with immediate, simultaneous access to any patient information - including multimedia and paper-based information -- through their existing applications, such as the host Healthcare Information Systems, computerized patient records, clinical data repositories, human resources, materials management, and others.

OmniVision will deliver unstructured data and workflow automation to third-party applications while creating a complete historical repository. As a result, OmniVision will allow hospitals and integrated delivery systems to consolidate all health information, whether text, document and medical images, sound, or video into one easily accessible repository. This will provide a tremendous advantage to healthcare organizations that currently rely on manual processes or multiple non-integrated applications to access the complete patient record.

## **WEBVIEW**

### **ENTERPRISE-WIDE INTERNET ACCESS.**

LanVision is developing this product to allow hospitals and integrated delivery networks to take advantage of the World Wide Web, the lowest cost network infrastructure available today, for truly enterprise-wide access. Regardless of where they are located, healthcare users will be able to immediately and simultaneously access any healthcare information across the Internet with encrypted security and audit trail.

"My colleagues and I have found that the medical record information we need is very accessible and the system is easy to use and learn . . . "I taught myself to use the system in just a few minutes."

**EMERGENCY DEPARTMENT PHYSICIAN ST. ALEXIUS MEDICAL CENTER BISMARCK, NORTH DAKOTA**

**LanVision Exhibit Booth**

[Photo of Trade Show Exhibition]

Over the last year, LanVision has increased its visibility in the healthcare market significantly. Among other things, LanVision has invested in such efforts as a comprehensive testimonial ad campaign, a targeted direct marketing program combining telemarketing and direct mail, as well as an increased presence in leading industry trade shows and conferences.

**SELECTED FINANCIAL DATA**

	Fiscal Year(1)				
	1996	1995	1994	1993	1992
OPERATING STATEMENT DATA:					
	(In thousands, except per share data)				
Total revenues	\$ 10,310	\$ 5,019	\$ 2,412	\$ 3,250	\$ 1,136
Total operating expenses	16,271	5,324	3,105	3,138	999
Operating income (loss)	(5,961)	(306)	(693)	112	137
Net income (loss)	(4,669)	(326)	(572)	73	94
Net income (loss) per share of common stock	\$ (.56)	\$ (.05)	(.09)	\$ .01	\$ .01
Shares used in computing net income (loss) per share	8,284	6,190	6,190	6,223	6,685

	Fiscal Year(1)				
	1996	1995	1994	1993	1992
BALANCE SHEET DATA:					
	(In thousands)				
Cash, cash equivalents and investment securities	\$ 26,592	\$ --	\$ 618	\$ 137	\$ 36
Working capital (deficiency)	17,864	(81)	271	(26)	23
Total assets	33,300	3,046	1,518	769	533
Convertible redeemable preferred stock	-	850	850	-	-
Total stockholders' equity (deficit)	29,921	(646)	(319)	253	255

(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.

**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 which 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 is a leading provider of healthcare information access systems that enable hospitals and integrated healthcare networks to capture, manage, store, retrieve and process vast amounts of clinical and financial patient information. The Company's systems deliver on-line enterprise-wide 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. LanVision's systems, which incorporate data management, document imaging 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. The systems are specifically designed to meet the needs of physicians and other medical and administrative personnel and can accommodate multiple users requiring simultaneous access to patient information, thereby eliminating file contention. By providing access to all forms of patient information, the Company believes that its healthcare information access systems are essential components of the computer-based patient record.

The Company's revenues are derived from the licensing and sale of systems comprising LanVision and third-party software and hardware components, and from professional services, maintenance and support services. These services include implementation and training, project management and 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, although the margins on these 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. The highest margin is on proprietary LanVision software and the lowest margin is on third-party hardware. Systems sales to any given customer may include differing configurations of software and hardware, resulting in varying margins among contracts.

Sales are made by the Company's direct sales force, which was increased substantially during 1996, and through healthcare information systems distribution partners. During 1996, the Company was working with one major distribution partner, Lanier Healthcare Systems. However, the Company has entered into additional agreements in 1997 and expects both the number of partners and the resulting revenues to increase in the future.

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. Throughout 1996, the Company experienced extended sales cycles which 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 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 a purchase agreement is signed and products are shipped. Revenue recognition related to routine installation and integration and other insignificant obligations 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. Revenue from consulting, training and services 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 the revenue are classified as deferred revenues. Revenue recognized prior to progress billings to customers is recorded as unbilled receivables.

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## RESULTS OF OPERATIONS

The following table sets forth, for each fiscal year indicated, certain operating data as a percentage of total revenues, the cost of systems sales as a percentage of systems sales and the cost of service, maintenance and support as a percentage of revenues from service, maintenance and support.

### CONSOLIDATED STATEMENTS OF OPERATIONS(1)

	Fiscal Year(2)		
	1996	1995	1994
Systems sales	65.5%	66.9%	66.8%
Service, maintenance and support	34.5	33.1	33.2
Total revenues	100.0	100.0	100.0
Cost of sales	78.0	64.8	77.5
Selling, general and administrative	64.5	29.5	25.8
Product research and development	15.3	11.8	25.5
Total operating expenses	157.8	106.1	128.8
Operating (loss)	(57.8)	(6.1)	(28.8)
Other income (expense), net	12.5	(0.5)	(0.1)
(Loss) before income taxes	(45.3)	(6.6)	(28.9)
Income tax expense (benefit)	-	(0.1)	(5.2)
Net (loss)	(45.3)%	(6.5)%	(23.7)%
Cost of systems sales	61.8%	55.9%	71.0%
Cost of service, maintenance and support	108.9%	82.8%	90.4%

(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.

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## COMPARISON OF FISCAL YEAR 1996 WITH 1995

REVENUES. Total revenues in fiscal year 1996 were \$10,310,052 compared with revenues of \$5,018,521 in fiscal year 1995, an increase of \$5,291,531, or 105%. Revenues from systems sales in fiscal 1996 were \$6,756,226, an increase of \$3,399,066, or 101%, over systems sales in fiscal 1995. The increase in systems sales is primarily

attributable to expansion of systems at customers existing prior to January 31, 1996, and two new customers. Revenues from service, maintenance and support in fiscal 1996 were \$3,553,826, an increase of \$1,892,465, or 114%, over fiscal 1995. Maintenance revenues in fiscal 1996 were \$1,185,665, an increase of \$279,304, or 31%, over maintenance revenues in fiscal 1995. The increase in maintenance revenues in fiscal 1996 is primarily due to billings on prior installations subsequent to the warranty period. Professional services revenue in fiscal 1996 was \$2,368,161, an increase of \$1,613,161, or 214%, over the professional services revenue in fiscal 1995. Substantially all of the increase came from the Company's fiscal 1995 client base as previously signed agreements were implemented in fiscal 1996. The two new agreements signed in fiscal 1996, contributed \$1,423,652, or 27%, of the increase in total revenues in fiscal 1996, as they were signed and implementation began in the last half of the year; the remaining 73% of the increase came from implementation of original phases, or expansion of systems at existing clients. In fiscal 1996, three customers accounted for 49% of the Company's total revenues. In fiscal 1995, three customers accounted for 70% of the Company's total revenues.

**COST OF SALES.** Cost of sales consists of cost of systems sales and cost of service, maintenance and support. Cost of systems sales includes amortization of capitalized software costs, royalties and the 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 service, 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 increased to 61.8% from 55.9% compared with the prior fiscal year due to the mix of fewer new customers with traditionally higher software revenues, at higher margins, and the increase in add-on hardware sales to existing customers at lower margins. The cost of service, maintenance and support increased to 108.9% from 82.8%, as the Company increased the support and professional services staff in anticipation of expanded revenue from new customers. The Company's shortfall in obtaining new customers contributed to higher professional service costs as a percentage of revenues because the staff was unable to be fully utilized on billable projects, resulting in more non-billable professional service hours. In addition, the professional services staff was used on various internal consulting projects and performed several special projects for customers on a complimentary basis or at discounted rates. The new professional services staff required training and product orientation, leaving less time available for billable hours. Anticipated future increases in service, maintenance and support revenues are not expected to require a proportionate increase in expenses.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expenses consist primarily of personnel and related costs, traveling and living expenses and expenses such as advertising, trade shows, brochures, etc. for selling and marketing activities. In fiscal 1996, selling, general and administrative expenses were \$6,647,470 compared with \$1,477,401 in fiscal 1995. The increase in fiscal 1996 is primarily attributable to: the increase in sales and marketing personnel from eight to thirty; an increase in marketing and sales activities including advertising, trade shows, telemarketing, brochures, etc.; and the increase in personnel from five to twenty-one in the finance, management information systems, quality assurance and administrative departments, necessary to support the expanded, and future anticipated expansion of revenues. In addition, the increase in personnel required increased office space and the related facility costs. During the fourth quarter of fiscal 1996, the Company expensed \$250,000 related to the termination of a West Coast agent. This market is now being covered by the Company's direct sales force and its third-party distributors. The Company intends to continue to expand its direct sales operations especially in geographic areas in which the Company is currently not present and increase the pre-sales support of its reseller partners. However, the expansion will be at a slower pace than in 1996 and will be monitored along with the Company's assessment of market growth opportunities.

**PRODUCT RESEARCH AND DEVELOPMENT.** Product research and development expenses in fiscal 1996 were \$1,580,089, compared with \$594,037 in fiscal 1995. The fiscal 1996 increase is primarily attributable to: increased research and development staffing from five to seventeen; increased use of outside contractors; and associated increased overhead costs, as expanded efforts were undertaken to develop new products and enhancements to existing products. The Company intends to continue to accelerate product research and development in 1997. The Company capitalized \$170,000 and \$123,307 in product research and development costs in fiscal 1996 and 1995, respectively.

**OTHER INCOME (EXPENSE), NET.** Other income in fiscal 1996 consisted of interest on investment securities, net of interest expense on indebtedness outstanding prior to the Company's initial public offering.

**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. Tax loss carryforward approximates \$6,400,000.

**NET LOSS.** The Company's net loss in fiscal 1996 was \$4,668,540, compared with a net loss in fiscal 1995 of \$326,229. Fiscal 1996 net loss per share was \$.56, compared with a net loss per share in fiscal 1995 of \$.05.

Since commencing operations in 1989, the Company has, from time to time, incurred operating losses. Although the Company achieved profitability in fiscal years 1992 and 1993, the Company incurred a net loss in fiscal years 1994, 1995 and 1996. 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.

At January 31, 1997, the Company has master agreements, which if fully performed, would generate future revenues of approximately \$6,600,000. The products and services related to these agreements are expected to be delivered over the next two to three years. However, because implementations are dependent upon the customer's schedule, the Company is unable to predict accurately the amount of revenues in future periods.

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#### **COMPARISON OF FISCAL YEAR 1995 WITH 1994**

**REVENUES.** Total revenues in fiscal year 1995 were \$5,018,521, an increase of \$2,606,722, or 108%, over total revenues in fiscal year 1994. Revenues from systems sales in fiscal 1995 were \$3,357,160, an increase of \$1,746,475, or 108%, over systems sales in fiscal 1994. The increase in systems sales is primarily attributable to four new customers and expansion of systems at existing installations. Revenues from service, maintenance and support in fiscal 1995 were \$1,661,361, an increase of \$860,247, or 107%, over fiscal 1994. Maintenance revenues in fiscal 1995 were \$906,361, an increase of \$313,361, or 53%, over maintenance revenues in fiscal 1994. The increase in maintenance revenues in fiscal 1995 is primarily due to revenue on installations made during fiscal 1994. Professional services revenues in fiscal 1995 were \$755,000, an increase of \$547,000, or 163%, over the professional services revenues in fiscal 1994. Approximately \$363,000 of the increase in professional services revenues related to four new customers in fiscal 1995, and the remaining increase of \$184,000 is due to an increase in services to customers obtained in and prior to fiscal 1994. To date, demand for professional services has been more intensive during the early stages of each phase of system implementation and begins to decline as users become more familiar with the systems. In fiscal 1995, three customers accounted for 70% of the Company's total revenues. In fiscal 1994, two of these customers and one other customer accounted for 91% of the Company's total revenues. Revenues in fiscal 1994 were adversely affected by reduced marketing efforts while the Company was creating a new version of ChartVision and by the debate over healthcare reform.

**COST OF SALES.** Cost of sales consists of cost of systems sales and cost of service, maintenance and support. Cost of systems sales includes amortization of capitalized software costs, royalties and the 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 service, maintenance and support includes salaries and benefits for support and professional services personnel and the cost of third-party maintenance contracts.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expenses consisted primarily of salaries, commissions and benefits related to the Company's sales, marketing and administrative personnel. Selling, general and administrative expenses in fiscal 1995 were \$1,477,401, an increase of \$854,746, or 137%, over fiscal

1994. This increase is primarily attributable to an average increase in personnel of five people, increased marketing activity and increased commissions and bonuses based upon revenues.

**PRODUCT RESEARCH AND DEVELOPMENT.** Product research and development expenditures consisted primarily of salaries and related personnel benefits and the allocable portion of overhead costs. Product research and development expenditures were relatively consistent between fiscal years 1995 and 1994. The majority of product research and development expenses in fiscal year 1995 relate to the continued development of ChartVision 3.0 and On-Line Chart Completion. The Company capitalized \$123,307 and \$12,934 of product research and development costs in 1995 and 1994, respectively.

**PROVISION FOR INCOME TAXES.** In fiscal year 1994, the Company recorded a tax benefit of \$125,833, representing the extent to which it could utilize or receive a benefit for such losses. In fiscal 1995, no tax benefit has been provided because realization of a tax benefit for such losses is not assured.

**NET LOSS.** Net operating results in fiscal 1995 improved by \$245,831 compared with fiscal 1994. The Company's net loss in fiscal 1995 was \$326,229, compared with a \$572,060 loss in fiscal 1994. Net loss per share for fiscal 1995 was \$.05, compared with a \$.09 loss per share in fiscal 1994.

## **LIQUIDITY AND CAPITAL RESOURCES**

Since its inception in 1989, LanVision has funded its operations, working capital needs and capital expenditures primarily from a combination of cash generated by revenues from operations, borrowings, a private placement of convertible redeemable preferred stock and an initial public offering which raised approximately \$34,000,000, net of the underwriting discount and expenses, through the issuance of 2,912,500 shares of common stock on April 18, 1996.

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. Agreements with customers often involve significant amounts, and contract terms typically require customers to make progress payments. In fiscal 1996, progress billings to customers have increased as system implementation has increased. Progress billings recorded prior to the recognition of revenue have been classified as deferred revenues. At January 31, 1997, accounts and unbilled receivables were \$1,179,137 greater than accounts and unbilled receivables at January 31, 1996. This increase is primarily due to increased revenues.

The Company has no significant obligations for capital resources, other than noncancelable operating leases in the total amount of \$2,227,876, payable over the next five years. However, the Company plans to continue to increase its staff during fiscal 1997 to meet anticipated growth, which will require additional office space, furniture and equipment, the total cost of which has not yet been determined.

At January 31, 1997, the Company had cash and investments of \$26,591,772. Investments consist primarily of U.S. Government obligations with maturities ranging from one month to three years.

In March, 1997, the Company's Board of Directors authorized management, at its discretion, to repurchase shares of the Company's common stock of up to \$1,000,000 in value on the open market.

The Company believes that the existing cash balances and investment securities and revenue from operations, will be sufficient to meet its liquidity and capital spending requirements for the foreseeable future. To date, inflation has not had a material impact on the Company's revenues or income.

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**REPORT OF MANAGEMENT**


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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 has issued their audit report, which appears below.

In meeting its responsibility for the integrity of the 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*

*J. Brian Patsy  
President and Chief Executive Officer*

*/s/ Thomas E. Perazzo*

*Thomas E. Perazzo  
Chief Financial Officer*

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**REPORT OF INDEPENDENT AUDITORS**


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Board of Directors  
LanVision Systems, Inc.

We have audited the consolidated balance sheets of LanVision Systems, Inc. as of January 31, 1997 and 1996, 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, 1997. 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, 1997 and 1996 and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 1997 in conformity with generally accepted accounting principles.

Cincinnati, Ohio

*February 26, 1997*

*/s/ Ernst & Young LLP*

## CONSOLIDATED BALANCE SHEETS

## ASSETS

	Fiscal Year	
	1996	1995
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 664,223	\$ -
Investment securities	16,407,270	-
Accounts receivable, net of allowance for doubtful accounts of \$205,000 and \$75,000, respectively	2,934,230	1,871,099
Unbilled receivables	663,626	677,620
Other	572,968	164,182
	-----	-----
Total current assets	21,242,317	2,712,901
Property and equipment:		
Computer equipment	1,536,513	356,914
Computer software	173,359	98,225
Office furniture, fixtures and equipment	962,880	40,237
Leasehold improvements	267,244	-
	-----	-----
	2,939,996	495,376
Accumulated depreciation and amortization	(687,832)	(314,380)
	-----	-----
Investment securities	2,252,164	180,996
Capitalized software development costs, net of accumulated amortization of \$533,563 and \$455,563, respectively	9,520,279	-
Other	244,366	152,366
	-----	-----
	40,519	-
	-----	-----
	\$ 33,299,645	\$ 3,046,263
	=====	=====
LIABILITIES, CONVERTIBLE REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Notes payable	\$ -	\$ 600,000
Accounts payable	1,249,337	1,185,157
Accrued compensation	555,235	-
Accrued other expenses	1,073,167	162,727
Deferred revenues	500,783	846,104
	-----	-----
Total current liabilities	3,378,522	2,793,988
Deferred compensation	-	48,000
Convertible redeemable preferred stock, \$.01 par value per share, 8,500 shares authorized, issued and outstanding at fiscal year end 1995 (aggregate liquidation preference of \$850,000)	-	850,000
Stockholders' equity (deficit):		
Preferred stock, \$.01 par value per share, 5,000,000 shares authorized, 8,500 shares issued and outstanding (see above)	-	-
Common stock, \$.01 par value per share, 25,000,000 shares Authorized, 8,896,500 and 4,488,000 shares issued and outstanding, respectively	88,965	45,000
Capital in excess of par value	35,110,817	-
Accumulated (deficit)	(5,359,265)	(690,725)
Unrealized net gains on investment securities	80,606	-
	-----	-----
Total stockholders' equity (deficit)	29,921,123	(645,725)
	=====	=====
	\$ 33,299,645	\$ 3,046,263
	=====	=====

See accompanying notes.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
	1996	1995	1994
Revenues:			
Systems sales	\$ 6,756,226	\$ 3,357,160	\$ 1,610,685
Service, maintenance and support	3,553,826	1,661,361	801,114
Total revenues	10,310,052	5,018,521	2,411,799
Operating expenses:			
Cost of systems sales	4,173,707	1,876,525	1,144,207
Cost of service, maintenance and support	3,869,636	1,376,191	724,220
Selling, general and administrative	6,647,470	1,477,401	622,655
Product research and development	1,580,089	594,037	614,167
Total operating expenses	16,270,902	5,324,154	3,105,249
Operating (loss)	(5,960,850)	(305,633)	(693,450)
Other income (expense), net (including interest expense of \$79,925, \$38,301 and \$31,491 in fiscal years 1996, 1995 and 1994, respectively)	1,292,310	(26,143)	(4,443)
(Loss) before income taxes	(4,668,540)	(331,776)	(697,893)
Income tax expense (benefit)	-	(5,547)	(125,833)
Net (loss)	\$ (4,668,540)	\$ (326,229)	\$ (572,060)
Net (loss) per common share	\$ (.56)	\$ (.05)	\$ (.09)
Number of shares used in per common share computation	8,283,761	6,190,325	6,190,325

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

	Stockholders' Equity (Deficit)					
	Convertible redeemable preferred stock	Common stock	Capital in excess of par value	Accumulated (deficit)	Unrealized net gains on investment Securities	Total stockholders' equity (deficit)
Balances at January 31, 1994	\$ -	\$ 45,000	\$ -	\$ 207,564	\$ -	\$ 252,564
Issuance of convertible redeemable preferred stock	850,000	-	-	-	-	-
Net (loss)	-	-	-	(572,060)	-	(572,060)
Balances at January 31, 1995	850,000	45,000	-	(364,496)	-	(319,496)
Net (loss)	-	-	-	(326,229)	-	(326,229)
Balances at January 31, 1996	850,000	45,000	-	(690,725)	-	(645,725)
Issuance of common stock	-	29,005	34,275,777	-	-	34,304,782
Conversion of preferred stock	(850,000)	14,960	835,040	-	-	850,000
Unrealized net gains on investment securities	-	-	-	-	80,606	80,606
Net (loss)	-	-	-	(4,668,540)	-	(4,668,540)
Balances at January 31, 1997	\$ -	\$ 88,965	\$ 35,110,817	\$ (5,359,265)	\$ 80,606	\$ 29,921,123

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year		
	1996	1995	1994
Operating activities			
Net (loss)	\$ (4,668,540)	\$ (326,229)	\$ (572,060)
Adjustments to reconcile net (loss) to net cash (used for) operating activities:			
Depreciation and amortization	451,452	152,697	216,011
Deferred income taxes	-	-	(82,437)
Cash provided by (used for) assets and liabilities:			
Accounts and unbilled receivables	(1,049,137)	(1,989,223)	(319,704)
Other assets	(408,786)	(119,642)	(43,340)
Accounts payable	64,180	718,381	355,554
Accrued expenses	1,417,675	169,204	(33,430)
Deferred revenues	(345,321)	666,796	59,718
Net cash (used for) operating activities	(4,538,477)	(728,016)	(419,688)
Investing activities			
Purchases of investment securities	(42,377,849)	-	-
Proceeds from sales of investment securities	16,490,387	-	-
Purchases of property and equipment	(2,444,620)	(66,834)	(111,341)
Capitalization of software development costs	(170,000)	(123,307)	(12,934)
Net cash (used for) investing activities	(28,502,082)	(190,141)	(124,275)
Financing activities			
Payments on stockholder note payable	-	-	(50,000)
Payments on line of credit	(600,000)	(426,000)	(355,130)
Proceeds from line of credit	-	726,000	580,130
Issuance of common stock	34,304,782	-	-
Issuance of convertible redeemable preferred stock	-	-	850,000
Net cash provided by financing activities	33,704,782	300,000	1,025,000
Increase (decrease) in cash	664,223	(618,157)	481,037
Cash and cash equivalents at beginning of year	-	618,157	137,120
Cash and cash equivalents at end of year	\$ 664,223	\$ -	\$ 618,157
Supplemental cash flow disclosures:			
Income taxes paid	\$ -	\$ -	\$ 16,587
Interest paid	\$ 79,925	\$ 36,232	\$ 20,017

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

LanVision Systems, Inc. (the "Company") is a provider of healthcare information access systems that enable hospitals and integrated healthcare delivery systems in the United States to capture, manage, store, 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. The Company complements its products by offering support, maintenance and professional services. The Company's revenue recognition policies conform to Statement of Position 91-1, Software Revenue Recognition. Generally, revenue from software license fees and hardware sales is recognized when a purchase agreement is signed pursuant to a master agreement and products are shipped. Revenue related to routine installation and integration and other insignificant obligations 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 and services 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. For purpose of the Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

## INVESTMENT SECURITIES

The Company accounts for its 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 a component of stockholders' equity, net of income taxes, until realized. Interest earned is included in other income (expense) in the Consolidated Statements of Operations.

## 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 investment securities and accounts receivable. The Company's investment securities consist primarily of U.S. Government obligations. The Company's accounts receivable are concentrated in the healthcare industry. However, the credit risk is limited due to the geographic dispersion and number of customers.

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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. The failure to obtain new customers, the loss of existing customers or reduction in revenues from existing customers could materially adversely affect the Company's operating results (see Note 9).

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 would adversely affect operating results.

## OTHER CURRENT ASSETS

Other current assets at January 31, 1997 are primarily prepaid insurance, and prepaid expenses related to future revenues. At January 31, 1996, other current assets consisted primarily of costs related to the initial public offering which were offset against the proceeds from the stock offering.

## PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight line, half year convention method, over the estimated useful lives of the related assets. Estimated useful lives are as follows:

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

Depreciation expense for 1996, 1995 and 1994 was \$373,452, \$92,479 and \$90,375, 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, additional 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 \$170,000, \$123,307 and \$12,934 in 1996, 1995 and 1994, respectively. Research and development expense was \$1,580,089, \$594,037 and \$614,167 in 1996, 1995 and 1994, 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 \$78,000, \$60,218 and \$125,636 in 1996, 1995 and 1994, respectively.

#### **ACCRUED OTHER EXPENSES**

Accrued other expenses at January 31, 1997 includes: a warranty reserve of \$164,000; an accrued termination fee to an agent of \$250,000; and accrued royalties, franchise taxes and professional fees.

#### **INCOME TAXES**

The provisions for income taxes are accounted for in accordance with Statement of Financial Accounting Standard 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.

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#### **STOCK OPTIONS**

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, was issued in October, 1995, and is effective for fiscal year 1996. The Statement establishes a fair value method of financial accounting and reporting for stock-based compensation plans. The Company has 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 based on the weighted average number of common shares and common share equivalents outstanding during each period using the treasury stock method. Common share equivalents recognize the potential dilutive effects of the conversion of the convertible redeemable preferred stock to common stock and outstanding options to acquire common stock.

In accordance with the Securities and Exchange Commission, Staff Accounting Bulletin Number 83, the weighted average number of shares used in the computation of the net loss per common share for fiscal years 1995 and 1994, was calculated assuming all common share equivalents issued at prices below the initial public offering price, during a one year period before the filing of the initial public offering, were outstanding, even though the effect was antidilutive. Also, the computation of common and common equivalent shares includes the 1,496,000 shares of common stock issued upon the automatic conversion of the convertible redeemable preferred stock. Accordingly, the weighted average shares outstanding for fiscal years 1995 and 1994 is calculated at 6,190,325 shares.

The loss per common share calculation, in fiscal 1996, excludes the effect of the common share equivalents as the inclusion thereof would be antidilutive.

## 2. INVESTMENT SECURITIES

Investment securities at January 31, 1997 include the following:

	Market Value		Cost Basis		Unrealized Net Gains
	-----		-----		-----
Money Market Funds	\$ 554,202	\$	554,202	\$	-
U.S. Treasury Securities	25,373,347		25,292,741		80,606
	=====		=====		=====
Total investment securities	\$ 25,927,549	\$	25,846,943	\$	80,606
	=====		=====		=====

The fair values of investment securities are based on the quoted market prices at the reporting date for those investments. The estimated fair value of investment securities by contractual maturity at January 31, 1997 is as follows: \$16,407,270 in 1997, \$6,708,466 in 1998, and \$2,811,813 in 1999.

## 3. REVOLVING LINE OF CREDIT COMMITMENT

During 1996, 1995, and 1994, the Company maintained a revolving line of credit with a bank. The outstanding loans under the agreement bore interest at the bank's prime rate of interest plus 3/4%. On February 6, 1996, the Company entered into a new revolving loan with an initial loan facility of \$1,400,000. Beginning in July, 1996, the maximum amount available under the loan facility was reduced by \$100,000 per month until the line of credit expired on February 9, 1997. The loan was secured by all business assets of the Company including account and contract receivables, inventory, equipment, furniture, fixtures and general intangibles. The loan contained the joint and several guaranties of the two largest stockholders of the Company. Advances under the line of credit were limited to 75% of accounts receivable due less than 90 days from invoice.

## 4. DEFERRED COMPENSATION

The Company had a deferred compensation plan that provided for additional compensation to key employees based on the performance of the Company. The Company accrued \$48,000 at January 31, 1996 for this liability. In February, 1996, a stock option was granted to an employee to purchase 137,937 common shares at \$10.40 per share. Simultaneous with the granting of this option, the Company's liability under this deferred compensation plan was canceled and the deferred compensation plan was canceled.

## 5. OPERATING LEASES

The Company rents office space and equipment under noncancelable operating leases which expire in 2001. Future minimum lease payments under noncancelable operating leases for the next five fiscal years are as follows: 1997: \$524,261; 1998: \$520,860; 1999: \$485,546; 2000: \$444,073; 2001: \$253,136. Rent expense was \$252,383, \$60,441 and \$39,890 for fiscal years 1996, 1995 and 1994, respectively.

## 6. INCOME TAXES

The expense (benefit) for income taxes is as follows:

	Fiscal Year		
	1996	1995	1994
Current:			
Federal	\$ -	\$ -	\$ (43,396)
State and local	-	(5,547)	-
Deferred:			
Federal	-	-	(75,842)
State and local	-	-	(6,595)
	-	-	(82,437)
	\$ -	\$ (5,547)	\$ (125,833)

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

	Fiscal Year		
	1996	1995	1994
Federal tax expense (benefit) at statutory rate	\$ (1,587,304)	\$ (110,918)	\$ (237,284)
Loss for which benefit not provided	1,587,304	110,918	103,010
State income tax (benefit), net of Federal tax benefit	-	(5,547)	(4,353)
Other	-	-	12,794
	\$ -	\$ (5,547)	\$ (125,833)

The Company files its tax returns on a cash basis. 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		
	1996	1995	1994
Deferred tax assets:			
Net operating loss carryforwards	\$ 2,352,493	\$ 470,628	\$ 173,961
Accounts payable and accrued compensation	1,064,764	464,277	180,832
Deferred revenues	185,290	313,058	66,344
	3,602,547	1,247,963	421,137
Less valuation allowance	(1,989,722)	(242,158)	(199,526)
Net deferred tax assets	1,612,825	1,005,805	221,611
Deferred tax liabilities:			
Accounts and unbilled receivables	(1,311,369)	(942,152)	(177,027)
Capitalized software costs	(90,416)	(56,375)	(33,032)
Prepaid assets	(204,482)	-	-
Equipment	(6,558)	(6,558)	(11,552)
	(1,612,825)	(1,005,805)	(221,611)
	\$ -	\$ -	\$ -

At the end of fiscal 1996, the Company had a net operating loss carryforward of approximately \$6,400,000 which begins to expire in 2009.

## 7. CONVERTIBLE REDEEMABLE PREFERRED STOCK

In December, 1994, the Company sold 8,500 shares of Convertible Redeemable Preferred Stock for \$850,000. The shares were converted into 1,496,000 shares of common stock immediately prior to the initial public offering.

## 8. RETIREMENT PLAN

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

## 9. MAJOR CUSTOMERS

During fiscal 1996, three customers accounted for 21%, 17% and 11% of total revenues. During fiscal 1995, three customers accounted for 35%, 19% and 16% of total revenues. During fiscal year 1994, three customers accounted for 37%, 35% and 19% of total revenues. At January 31, 1997, 47% of the Company's accounts receivables are due from three customers.

## 10. STOCK OPTIONS

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 71,775 options which were granted in fiscal 1995, and became fully vested and exercisable on December 1, 1996. At January 31, 1997, options to purchase 521,050 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, none of which are exercisable or vested. In addition, non-qualified stock options to purchase 5,000 shares were granted to the same Director and vest ratably over two years.

The Company also issued non-qualified stock options to purchase 119,823 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, 89,760 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 1996 and 1995: risk-free interest rates of 6.3%; a dividend yield of zero percent; a volatility factor of the expected market price of the Company's common stock of .827 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 which 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.

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

Pro forma	Fiscal Year	
	1996	1995
Net (loss)	\$ (6,276,119)	\$ (1,762,737)
Net (loss) per common share	\$ (.76)	\$ (.28)

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			
	1996		1995	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding - beginning of year	527,018	\$ 8.21	30,063	\$ - (1)
Granted	141,840	11.40	496,955	8.70
Forfeited	(17,985)	10.40	-	-
Outstanding - end of year	650,873	8.84	527,018	8.21
Exercisable at end of year	299,605	\$ 9.36	30,063	\$ - (1)
Weighted average fair value of options granted during year	\$ 7.87		\$ 6.07(2)	

(1) \$1.00 in the aggregate for all 30,063 options.

(2) The weighted average fair value of the 89,760 options issued in fiscal year 1995 for \$1.00 per share was \$.70, and for 407,195 options was \$7.25.

The following table summarizes, by range of exercise price, the options as of January 31, 1997:

Options		Weighted Average Exercise Price	Approximate Remaining Life in Years
Outstanding	Exercisable		
30,063	30,063	\$ - (1)	4
89,760	-	1.00(2)	4
531,050	269,542	10.67(3)	9
-----	-----		
650,873	299,605	8.84	
-----	-----		

(1) \$1.00 in the aggregate for all 30,063 options.

(2) \$1.00 per share for each of the 89,760 options.

(3) The exercise prices ranges from \$7.37 to \$14.50.

Exercise prices for options outstanding as of January 31, 1997 ranged from \$1.00 in the aggregate for 30,063 options to \$14.50. The weighted average remaining contractual life of these options is approximately nine years.

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## 11. REORGANIZATION

On February 8, 1996, the Company was reorganized when LanVision Systems, Inc. was incorporated in the State of Delaware as a holding company with LanVision, Inc. as a wholly-owned operating subsidiary incorporated in the State of Ohio. The result of the reorganization is that the stockholders of LanVision, Inc. became the owners of all the outstanding shares of LanVision Systems, Inc.'s common and preferred stock, and LanVision Systems, Inc. became the owner of all of the outstanding shares of LanVision, Inc.'s common and preferred stock. This reorganization has been reflected in the accompanying financial statements, and all share and per share amounts have been adjusted retroactively to give effect to this reorganization.

## 12. 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 the 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.

### Employment Agreements

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

### 13. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following sets forth selected quarterly financial information for 1996, 1995, and 1994.

(in thousands, except per share data)	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)
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)	\$ -	\$ -	\$ -	\$ -	\$ -

  

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	1995
Revenues	\$ 402	\$ 1,182	\$ 667	\$ 2,767	\$ 5,018
Operating income (loss)	(356)	(118)	(287)	455	(306)
Net income (loss)	(357)	(129)	(284)	444	(326)
Net income (loss) per share (a)	(.06)	(.02)	(.05)	.07	(.05)
Weighted average shares outstanding	6,190	6,190	6,190	6,190	6,190

  

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	1994
Revenues	\$ 456	\$ 214	\$ 690	\$ 1,052	\$ 2,412
Operating (loss)	(271)	(210)	(205)	(7)	(693)
Net (loss)	(176)	(179)	(207)	(10)	(572)
Net (loss) per share (a)	(.03)	(.03)	(.03)	-	(.09)
Weighted average shares outstanding	6,190	6,190	6,190	6,190	6,190

(a) Quarterly amounts are not 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**

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**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, President and Treasurer

**ERIC S. LOMBARDO**

Executive Vice President and Secretary

**ROBERT F. GOLDEN**

Chief Technology Officer

**ALAN J. HARTMAN**

General Counsel

**THOMAS E. PERAZZO**

Chief Financial Officer

**CORPORATE INFORMATION**

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**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 27, 1997 at 9:30 a.m. (local time) at the Embassy Suites Hotel, 4554 Lake Forest Drive, Cincinnati, Ohio.

**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, 1997, there were approximately 3,200 stockholders

**LANVISION SYSTEMS, INC. WORLD WIDE WEB SITE**

Visit us at - <http://www.lanvision.com>

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[LOGO]

**LANVISION(TM)**  
**Health Information Access Systems**

**LANVISION SYSTEMS, INC.**  
**ONE FINANCIAL WAY, SUITE 400**  
**CINCINNATI, OH 45242**

PHONE: 800.878.LAN2, PHONE: 513.794.7100, FAX: 513.794.7272

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**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 February 26, 1997, included in the 1996 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 February 26, 1997, 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, 1997.

Form ----	Registration No. -----	Description -----
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
S-8	333-20763	George E. Castrucci Option Agreement

Cincinnati, Ohio / s / Ernst & Young LLP  
April 25, 1997

## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FORM 10-K FOR THE PERIOD ENDED JANUARY 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1

CURRENCY: U.S. DOLLAR

PERIOD TYPE	12 MOS
FISCAL YEAR END	JAN 31 1997
PERIOD START	FEB 01 1996
PERIOD END	JAN 31 1997
EXCHANGE RATE	1
CASH	664,223
SECURITIES	25,927,549
RECEIVABLES	3,802,856
ALLOWANCES	205,000
INVENTORY	0
CURRENT ASSETS	21,242,317
PP&E	2,939,996
DEPRECIATION	687,832
TOTAL ASSETS	33,299,645
CURRENT LIABILITIES	3,378,522
BONDS	0
COMMON	88,965
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	29,832,158
TOTAL LIABILITY AND EQUITY	33,299,645
SALES	10,310,052
TOTAL REVENUES	10,310,052
CGS	8,043,343
TOTAL COSTS	16,270,902
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	79,925
INCOME PRETAX	(4,668,540)
INCOME TAX	0
INCOME CONTINUING	(4,668,540)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(4,668,540)
EPS PRIMARY	(0.56)
EPS DILUTED	0

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