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The Outcomes Company[®]

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FINANCIAL

annual report

2001

Better healthcare through knowledge™

*"There is no more-
important goal than the
safety and care of our
patients. Implementing
Sunrise Clinical Manager
across our enterprise will
help us achieve that goal."*

Van Johnson
President/CEO
Sutter Health
Sacramento, CA

*"Our physicians were
impressed by the amount
of real-world physician
usage they saw and the
very-positive comments
of doctors at other
Eclipsys sites."*

Joe Olaszewski
Vice President
Information Systems & CIO
Frankford Hospital
Philadelphia, PA

*"Sunrise Clinical Manager is
truly the 'gold standard' in
clinical information systems."*

Allison Ferren
CIO
Abington Memorial Hospital
Abington, PA

*"Decision Support Manager
has enabled us to get to
that next level of care,
allowing us to become
much more knowledgeable
and efficient."*

Gary Strong
Senior Vice President and CIO
Fairview Health Services
Minneapolis, MN

Eclipsys® Corporation (NASDAQ: ECLP) is The Outcomes Company®, founded with a mission of *better healthcare through knowledge*™. More than 1,500 healthcare organizations use Eclipsys solutions to reduce errors, enhance workflow, and balance and improve clinical, financial and satisfaction outcomes. SunriseXA™ includes integrated Web- and component-based software, architecture and services that support all members of the healthcare team with the knowledge they need to support and improve the organization's four core processes — care delivery, patient flow, revenue and administrative management, and customer relations.

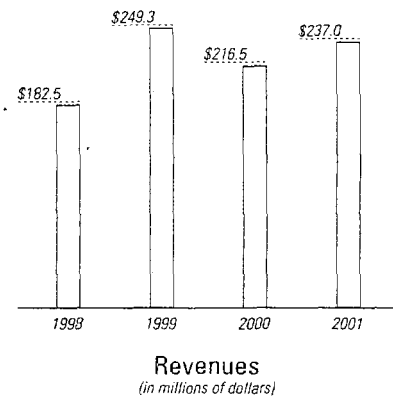
The 1,500 members of the Eclipsys team are committed to exceeding the expectations of our customers by embodying the company's core values — Integrity, Quality, Entrepreneurism, Teamwork and Achievement — in everything we do.

Eclipsys' commitment to *better healthcare through knowledge™* that improves healthcare outcomes continued to result in significant growth and success in 2001 and position us for continued momentum in 2002.

MARKET FORCES

Those who use and pay for healthcare services — and, thus, healthcare providers as well — are increasingly focusing on methods to reduce avoidable medical errors (AMEs) and improve patient safety. Through our knowledge-driven software and services and our focus on outcomes, Eclipsys and our workflow-enhancing solutions are perfectly aligned with the marketplace. Major health systems and hospitals such as Cleveland Clinic Health East, California's Sutter Health, Connecticut's Yale New Haven Health, Georgia's PROMINA Health and others are selecting our solutions to enable them to comply with these developing standards for improved patient safety. The Leapfrog Group, a consortium of leading employers (including Eclipsys) formed following the Institute of Medicine's landmark report on medical errors, has established three initial recommendations for reducing errors. The use of advanced clinical decision support systems (CDSS) with direct computerized physician order entry (CPOE) — such as our Sunrise™ Clinical Manager, which has received Leapfrog's highest-possible ratings — is Leapfrog's top priority for patient-safety improvement.

Leapfrog is working with hospitals to evaluate their compliance with these standards and publicize the results to payers and the general public. Leapfrog and other studies show that only a very small percentage of the market (less than 5%) are currently using such advanced solutions — though fall 2001 Leapfrog reports do show that a third of those reporting are using Eclipsys solutions. Leapfrog has also reported that Eclipsys is the only major vendor with a solution currently in active use that meets or exceeds their measurements for advanced capabilities in all nine categories analyzed.



MILESTONES

Q1 Eclipsys raises \$123.2 million through a successful secondary public offering.

Q1 Eclipsys becomes one of only 20 companies named to the first tier of the Microsoft .NET Early Adopter Program, and announces Microsoft strategic alliance.

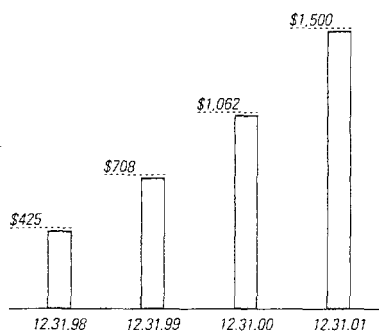
Q1 Knowledge-Based Transcription, an advanced medical-transcription solution, is introduced as a new Clinical Manager module.

With time, it is anticipated that many payers will only cover healthcare services provided by organizations that meet Leapfrog or similar standards. That fact, combined with the low percentage of organizations currently using CDSS solutions, demonstrates that there is a strong untapped market for Eclipsys' proven solutions. We anticipate continued steady growth in market share for many years to come.

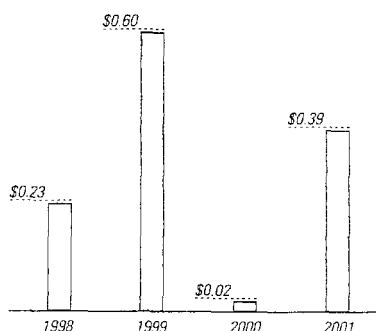
A secondary market challenge continues to be the developing U.S. regulations governing how healthcare organizations limit and track access to confidential patient-record information. Organizations still using paper-based record systems will be increasingly hard-pressed to comply with the regulations of HIPAA, the Health Insurance Portability and Accountability Act. Eclipsys formed a strategic partnership with Healthlink, a leading provider of healthcare information-technology consulting services, to jointly develop and provide an array of HIPAA assessment and compliance services. Further, our Sunrise Record Manager-Gold electronic document-management solution fully supports all of the final published HIPAA patient-privacy rules. The need to comply with HIPAA regulations will drive many healthcare organizations still bound by paper-based record systems to select an advanced electronic solution in 2002 or the years immediately beyond.

THE 'MICROSOFT OFFICE OF HEALTHCARE'

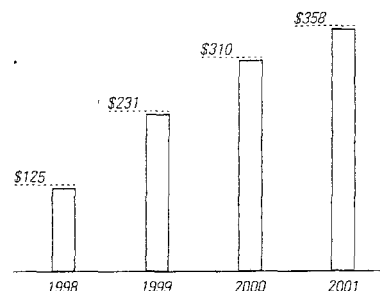
As the leader in proven knowledge-driven healthcare information solutions, Eclipsys is ideally positioned to continue to leverage these market forces. Prospects have shown they are looking for real-world solutions, provided by a company with a rock-solid financial position and a clear vision of the future. Eclipsys excels in each of these areas. Site visits to our current customers — where solutions are actively being used every day by physicians, nurses and other members of the healthcare team — are enabling us to demonstrate the active use and value of our solutions. Eclipsys was privileged to have been selected as one of only 20 companies worldwide in the first tier of the Early Adopter Program for Microsoft .NET. This innovative Web initiative is perfectly aligned with the evolution strategy for the content and workflow of our existing Sunrise solutions. .NET enables us to transform information access and use, ensuring that the right knowledge is available to the right persons, in the right format, on the right device(s), at the right time and place, to ensure that the best-possible healthcare decisions can be made. Because of our early and active involvement in the delivery of .NET to the marketplace, Eclipsys has been able to ensure that this essential underlying technology meets the stringent standards of the mission-critical healthcare environment.



Sales funnel
(in millions of dollars)



Diluted EPS*
(in dollars)



Bookings
(in millions of dollars)

* Excludes acquisition-related amortization and nonrecurring charges.

02 *Eclipsys forms strategic partnership with London-based ISOFIT, plc, to expand services and support to users of Eclipsys clinical information solutions outside of North America.*

02 *Five Rights Consulting rates Sunrise Clinical Manager "ahead of the pack" in an industry survey of systems with functionality "that enhances patient safety, saves money, or is likely to be frequently used."*

03 *Eclipsys provides startup support to IMKI, a non-profit organization advancing the use of medical knowledge application content.*

04 *Over 1,100 persons attend the Eclipsys User Network (EUN) Conference, bringing together users from across the company's entire solution set for the first time.*

Eclipsys has also established a strong Microsoft strategic partnership that, coupled with our .NET involvement, enables us to focus on what we do best — provide outcomes-enhancing healthcare content and workflow support to enable clinical- and revenue-management transformation throughout the healthcare enterprise. One of the milestones of our Microsoft relationship was reached in late October, when Eclipsys announced the launch of SunriseXA, the next generation of our Sunrise solutions utilizing the Microsoft .NET Framework and other industry standards. The open, modular, flexible, component- and Web-based SunriseXA is garnering significant industry interest and is in synch with what industry analysts have determined is the successful wave of the future.

Eclipsys' commitment to industry standards is also demonstrated in other ways — both in how they are utilized by our solutions and how we play a leadership role in advancing their acceptance throughout our industry. We continue our active long-time role with Health Level Seven (HL7), a highly respected standards organization, and last year contributed to the latest version of the CCOW context-management standard. We were proud to provide mid-year startup assistance to the Institute for Medical Knowledge Implementation (IMKI), a not-for-profit organization dedicated to developing and maintaining medical

knowledge application content that can be used in advanced information systems such as ours to promote improved health-care outcomes.

This commitment to industry standards benefits Eclipsys, our customers and prospects in many ways. It enables us to leverage our development expertise and resources without wasting resources on developing proprietary underpinnings. Thus, our products can reach the market more quickly and cost-effectively, and be easier, quicker, more intuitive and more efficient to implement, use and expand. Being component- and standards-based, Eclipsys solutions also can be utilized more easily in conjunction with existing information systems as well as with new solutions being written to the .NET platform, enabling healthcare organizations to leverage those systems and maximize the return on investment across their information infrastructure.

This enables us to achieve our goal of having our solutions be considered the "Microsoft Office of healthcare," where best-of-class heritage solutions are evolved onto a common, flexible architecture to form a comprehensive solution that becomes the industry's gold standard.

Q4 Eclipsys announces upcoming launch of SunriseXA, the next-generation of Web- and component-based healthcare computing solutions.

Q4 Clinical Manager receives highest possible ratings in Leapfrog Group study of CPOE-based systems' ability to support 1000 recommendations for improving patient safety.

Q4 KLAS ranks Clinical Manager #1 for customer satisfaction for its acute-care ordering and charting capabilities.

MILESTONES

Eclipsys has an aggressive schedule for rollout of SunriseXA software, architecture and service components, including new advanced solutions specially targeted to the knowledge needs of such areas as Emergency, Pharmacy, Radiology, Surgery, Oncology and others. This will increasingly make it unnecessary (and undesirable) for healthcare organizations to have back-office departmental systems that attempt to duplicate some of the capabilities more appropriate for the comprehensive, "front-office" SunriseXA solution set. Again, this makes Eclipsys a highly desirable choice versus much-older monolithic solutions that continue to struggle with implementation and adaptability challenges.

BETTER HEALTHCARE THROUGH KNOWLEDGE

Eclipsys begins 2002 in an extremely strong and enviable position. Our financials have never been more solid to support our continued growth. Our new SunriseXA products were introduced to widespread acceptance at HIMSS, the largest trade show of our industry, and the initial SunriseXA components were generally released ahead of schedule in early 2002. We continue to show operational efficiencies after successfully integrating our heritage companies into a single corporation. And, even though our clinically focused systems are already receiving the highest marks in the industry, we have further strengthened our commitment to continuous quality improvement in customer satisfaction by launching a major initiative that ties compensation plans to measurable gains in customer satisfaction.

In addition, we are increasing our visibility and presence in the marketplace with significant expansion of our sales and marketing teams. And at a time when so many companies

are retrenching their operations, we are moving to a new corporate headquarters to further enhance our productivity and our position as a major healthcare IT solutions provider.

Through these exciting developments...our relationships with Microsoft and other industry leaders...our commitment to industry standards...and, most of all, to quality solutions that provide real value in reducing errors and improving healthcare delivery...the Eclipsys team looks forward with anticipation to another dynamic year of achievement as we strive to fulfill our mission — better healthcare through knowledge.

As always, we appreciate the continued support of our customers, employees and shareholders in making Eclipsys Corporation, The Outcomes Company, the leader in advanced healthcare information solutions.

Sincerely,

Harvey J. Wilson
Chairman and CEO



James E. Hall
President



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-24539

ECLIPSYS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

65-0632092
(I.R.S. Employer Identification Number)

1750 Clint Moore Road
Boca Raton, Florida
33487

(Address of principal executive offices)

(561)-322-4321

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value
Common Stock, \$.01 par value, and Preferred Stock Purchase Rights

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

Indicate by check mark 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 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. ☐

The aggregate market value of the voting stock (Common Stock) held by non-affiliates of the registrant as of March 19, 2002 based upon the closing price of the Common Stock on the Nasdaq National Market for such date, was \$540,505,316.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

<u>Class</u>	<u>Shares Outstanding as of March 19, 2002</u>
Common Stock, \$.01 par value	44,521,403

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's definitive Proxy Statement to be used in connection with the annual meeting of stockholders for the year 2002 will be incorporated by reference into Part III of this Form 10-K.

Part I

This report contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. The important factors discussed below under the caption "Certain Factors That May Affect Future Operating Results/Risk Factors," among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. *Business*

Overview

Eclipsys is a healthcare information technology company that provides software and services to help healthcare organizations improve the quality of care and the level of patient satisfaction, while reducing costs and enhancing revenues.

We believe our mission of "better healthcare through knowledge" aligns with our customers' objectives, and our software solutions help them improve their workflow processes and implement best practices in their organizations. To these ends, we design and offer a comprehensive package of software applications and services that together enable providers in a variety of healthcare settings to improve the effectiveness of their operations and the quality of care as measured by clinical outcomes.

Our software and services provide comprehensive functionality to help healthcare organizations solve the clinical problems and business issues they face and achieve balanced outcomes through an appropriate and sustainable combination of clinical quality, resource utilization and patient satisfaction.

We believe the open, modular nature of our software architecture reduces the overall cost of ownership and reduces the time to productive use because our solutions do not require the initial investment and disruption associated with a complete replacement of a customer's existing systems. To facilitate rapid adoption by our customers, we have engineered our solutions to take advantage of Web-based technologies. Our software applications are available to our customers for implementation in-house or through our remote hosting service, and are designed to work in a variety of healthcare settings.

In addition, we provide a wide range of complementary services to our customers, including implementation, integration, support, maintenance and training. We also provide outsourcing, remote hosting, network services and business solutions consulting to assist customers in meeting their healthcare information technology requirements. Through this comprehensive service offering and our integrated software components, we provide our customers with solutions for their clinical, financial and administrative information needs.

We maintain decentralized sales and customer support teams in each of our six North American regions to provide direct, sustained customer contact. We market our solutions primarily to large healthcare organizations, particularly academic medical centers. We have one or more of our products installed or being installed in over 1,500 facilities worldwide. Of 2,800 U.S. hospitals with over 200 beds, more than 50% are Eclipsys customers. Of the 16 top-ranked hospitals in the July 23, 2001 issue of *U.S. News & World Report*, all 16 use one or more of our products. Additionally, of the 50 largest integrated delivery networks, 37, or 74%, use one or more Eclipsys products.

Challenges and Compliance Pressures in the Healthcare Industry

Institute of Medicine. In 1999 and 2001 reports, the Institute of Medicine, or IOM, calls for expanded use of information technology and the implementation of other methods to cut the incidence of avoidable medical errors by 50 percent in the U.S. over five years. The IOM identifies medication and pharmacy errors as significant causes of deaths and adverse events.

The Leapfrog Group. The 1999 IOM Report resulted in the formation of The Leapfrog Group, a consortium of more than 90 Fortune 500 companies and other large private and public healthcare purchasers founded by the Business Roundtable. The Leapfrog project is steering its members' employees to base their purchase of healthcare on principles encouraging more stringent patient-safety measures including the use of computerized physician order entry systems.

The IOM and The Leapfrog Group are leveraging their respective influence to impact the deployment of advanced clinical solutions that will help reduce adverse drug events and adverse medical errors. Coupled with demands from consumers, this influence is also spurring new government legislation. For example, California has passed legislation mandating the eventual adoption of information technology aimed at avoiding adverse medical errors.

Health Insurance Portability and Accountability Act (HIPAA). Under this federal legislation, originally adopted in 1996, the healthcare industry must implement standards for the electronic transmission of administration and financial data. In early 2002, President George W. Bush signed legislation delaying implementation of HIPAA transaction standards until October 2003. We believe HIPAA's privacy regulations are extensive and designed to safeguard confidential patient information by controlling access to it and requiring audit trails of its use. We believe these requirements will significantly impact the structure and nature of healthcare information systems. HIPAA's establishment of standard transaction sets may mean electronic data interface direct connections will eliminate many of today's clearing operations.

Joint Commission on Accreditation of Healthcare Organizations. The Joint Commission, an independent non-profit organization that provides voluntary evaluation and accreditation for nearly 18,000 healthcare organizations and programs in the United States, periodically introduces new process improvement initiatives, standards and performance measurements. The Joint Commission recently introduced new patient safety standards that require hospitals to initiate specific efforts to prevent medical errors and inform patients when they have been harmed during their treatment.

The Internet. We believe growth in the use of the Internet will enable consumers to be more involved in their healthcare choices and to demand greater quality and will give them access to information about healthcare alternatives.

Market Factor Changes

We believe the future of healthcare will be shaped by a variety of changes, which may place burdens on healthcare organizations. This would likely lead healthcare information technology vendors to produce systems that analyze and process data more effectively and produce the knowledge these healthcare providers need to respond to these changes and challenges. Some of the factors that may be starting to have an impact on the pace and type of changes in healthcare include:

Changing population. Older, more computer-literate consumers may become more actively involved in choosing their providers and their care and treatment plans and — with increased access to it, may be more concerned about how their own medical data is used.

Healthcare at a distance. Remote monitoring, remote compliance monitoring and telemedicine may generate masses of data that must be analyzed and processed before it can be useful to the clinician at the point-of-decision.

Workflow driven staffing changes. One possible example of this type of change may be the proliferation of data-gathering and processing tools that increase nursing productivity and efficiency so they can spend more time with patients. Another example could be that hospital beds will have monitors constantly connected to computer-based sensors that collect and record details of the patient's status in the Computerized Patient Record.

The Eclipsys Solution

Eclipsys software and services are designed based upon the philosophy that physicians, nurses or clinicians in their interaction with a patient initiate most healthcare activities. For example, a physician's single order begins a sequence of actions in the care process, the customer relationship management process, the revenue process, the access process, the supply process and decision support process.

Our solutions assist healthcare organizations in achieving balanced clinical and financial outcomes through an appropriate and sustainable combination of clinical quality, resource utilization and patient satisfaction. They provide comprehensive functionality to focus on solving the business issues healthcare organizations face.

Our solutions are designed to:

- provide automated processes that improve clinical workflow and support clinical decision-making;
- give clinicians access to patient information and supporting references, such as medical journals, through a variety of technologies, including wireless devices within the healthcare facility and over the Internet;
- integrate clinical, financial and patient satisfaction information to support balanced clinical and financial outcomes;
- offer comprehensive services that help our customers improve workflow processes and implement best practices within their organizations;
- provide tools allowing healthcare organizations to analyze past performance, make plans based on that analysis, and, as those plans are implemented, monitor their effectiveness;
- leverage our products' modular architecture to let customers meet current and future needs while preserving their investment in existing systems; and
- encourage speedy, cost-effective implementations of in-house systems and remote-hosted services.

The Eclipsys Strategy

Our objective is to become the leading provider of healthcare information technology solutions to the healthcare industry. Key elements of our strategy include:

Provide Comprehensive, Integrated Healthcare Information Technology Solutions. Our goal is to continue to offer software and services that provide our customers with a comprehensive, integrated healthcare information technology solutions. We intend to continue to enhance our existing products and develop new solutions to meet the evolving healthcare information needs of our customers. We have been enhancing our products, for instance, to take advantage of its Web-based architecture, a browser-enabled, database-neutral software architecture that can support multiple operating system platforms and can be used across a broad range of computing environments, including the Internet, client-server systems and older mainframe computer systems. Our team of research, development and technical support professionals develops, enhances, supports and commercializes a complete line of healthcare information products.

Provide Flexible Product Options. We intend to continue to offer our customers flexible product and product-delivery options either in-house or remote hosted, that meet a wide variety of information and technology requirements. Customers can purchase our software components individually or in any combination and can integrate them into their existing systems, thereby minimizing cost and disruption. When combined, our software components provide an integrated solution to the major clinical, financial and administrative needs of a healthcare organization.

Further Penetrate Our Existing Customer Base. We believe there is a significant opportunity to sell our integrated healthcare technology solutions to our existing customers, which include large healthcare organizations, particularly academic medical centers. Of these customers, few have enterprise-wide healthcare information systems. Our products are installed or being installed in more than 1,500 facilities, with most of these facilities having only one or two of our software applications. We intend to continue to market our

solutions aggressively to our customers in order to capitalize on the growth opportunity within our existing customer base.

Employ a Targeted Marketing Approach. We intend to continue to target healthcare organizations that recognize the need to improve patient safety, particularly academic medical centers and integrated delivery networks. We believe that these entities are the first to adopt new technology. In addition, we believe that physicians are becoming increasingly involved in the process of selecting information technology. We believe that our clinically oriented products and our inclusion of physicians in the product design process provide us with an advantage as we compete for business. We will also continue to leverage the extensive industry experience of our senior management and sales force in this effort.

Products

Our products perform the core information technology functions required by healthcare organizations and other healthcare providers throughout the healthcare enterprise. Our software applications are available to our customers for implementation in-house or through our remote hosting service, and are designed to work in a variety of healthcare settings. In addition, our products are designed to work both through wireless devices within a healthcare facility and over the Internet. The following table summarizes our product offerings:

Product	Primary Functions
Sunrise Clinical Manager	- Computerized Patient Record providing clinical rules and information to facilitate clinical decision-making - Access to patient records - On-line ordering of clinical services and prescriptions (computerized physician order entry) - Clinical documentation
Sunrise Access Manager	- Access to patient information and coordination of gathering of additional information at each stage of patient care - Coordinate scheduling of appointments - Patient identification
Sunrise Patient Financial Manager	- Coordinate compliance with managed-care contract reimbursement terms, patient billing, and third-party reimbursement
Sunrise Decision Support Manager	- Clinical and financial data repository to analyze past clinical, operational and financial performance - Model future plans and alternatives - Measure and monitor performance
Sunrise Record Manager	- Automate medical record management system - Manage documents and images throughout the enterprise
Sunrise Enterprise Application Integrator (eWebIT)	- Tools to enable integration of data from existing systems

Sunrise Clinical Manager. Sunrise Clinical Manager is a computerized patient record system that provides patient information to physicians, nurses and other clinicians at the point-of-care. Sunrise Clinical Manager also allows a physician to enter orders quickly and efficiently into the system and provides clinical decision support at the time of order entry. Sunrise Clinical Manager is designed for use in ambulatory, acute care and other healthcare settings, and includes the following features:

- Order entry, communication and management, which enables physicians to order online prescriptions and laboratory or diagnostic tests or procedures and routes the order to the appropriate department or party within the organization for fulfillment.
- Knowledge-based orders, which is a clinical decision support system that automatically provides real-time guidance to physicians by alerting them to possible problems with or conflicts between newly

entered orders and existing patient information using the system's rules database. A comprehensive set of clinical rules developed by physicians is available with knowledge-based orders. Customers can modify these existing rules or can develop their own clinical rules.

- Clinical decision support, which triggers alerts, including by email or pager, upon the occurrence of a specified change in a patient's condition or any other physician-designated event, such as the delivery of unfavorable laboratory results, while relating the new information to information already in the system for that patient.
- Clinical pathways and scheduled activities lists, which provide access to standardized patient-care profiles and assist in the scheduling of clinical treatment procedures.
- Clinical documentation, which gathers and presents organized, accurate and timely patient information by accepting and arranging input from caregivers, laboratories or monitoring equipment.
- Sunrise Universal Viewer, which provides physicians with Web-based access to patient information from within the healthcare facility or at a remote location.
- Clinical data repository, which permanently stores clinical and financial information in easily accessible patient care records.

Sunrise Access Manager. Sunrise Access Manager enables the healthcare provider to identify the patient at any point in the healthcare delivery system and to collect and maintain patient information throughout the entire process of patient care on an enterprise-wide basis. The single database structure of Sunrise Access Manager permits simultaneous access to the entire patient record by authorized personnel from any access point on the system. The elements of Sunrise Access Manager include:

- Functions for comprehensive, admission, discharge and transfer (ADT) management. Patient registration captures demographic, insurance, referral and primary-care provider information and automates visit management by collecting and recording visit information in compliance with third-party billing regulations and managed care contractual requirements.
- Patient scheduling and resource management which allows personnel to schedule patient appointments throughout an organization based on patient preferences and resource availability. An integrated application, it uses a single database with registration/ADT and patient accounting functions and provides complex scheduling capabilities such as multiple and linked conditional appointments. Patient details automatically populate both the Sunrise Access and Scheduler products, virtually eliminating errors while streamlining the scheduling process. The Scheduler returns optimal time management for the staff and the patient, thereby preserving the enterprise's greatest asset — time. The power of integration between billing, approvals, eligibility and access elevates patient management to new levels of efficiency.
- Work Quality Monitor which is a supervisory task that runs in the background to constantly match transactions against quality protocols to detect transaction errors, mismatches and omissions. When it identifies such exceptions, Work Quality Monitor sends a real-time alert to the party charged with the responsibility for remedying the situation.
- Enterprise person identifier, which is a single index of all patients and healthcare plan members within a healthcare provider's system that supports searches on the basis of a variety of characteristics, such as name, Social Security number or other demographic data.
- Managed-care support features, such as verifying insurance eligibility online and compliance with managed-care plan rules and procedures.
- Centralized capabilities for bed management: bed reservations, transfers and discharges and tracking in-house patient information.

Sunrise Patient Financial Manager. Sunrise Patient Financial Manager uses a single, integrated database for patient-accounting processes, including the automatic generation of patient billing and accounts

receivable functions, a system of reimbursement management to monitor receivables, the automation of collection activities and contract compliance analysis, as well as follow-up processing and reporting functions. This product suite supports the growing trend toward the centralized business office for multiple entities, which improves compliance with managed care contracts. Sunrise Patient Financial Manager includes the following functions:

- Patient accounting, which automates the patient-billing and accounts receivable functions, including bill generation, reimbursement calculation, account follow-up and account write-offs. Paperless processing is achieved through real-time inquiry, editing, sorting, reporting, commenting and updating from other applications, including modules in Sunrise Access Manager and Sunrise Clinical Manager.
- Contract management, which includes a repository for the payment terms, restrictions, approval requirements and other rules and regulations of each insurance plan and managed care contract accepted by an organization. Contract management is used in conjunction with other Sunrise products to ensure that patient care complies with these rules and regulations.
- Reimbursement management, which facilitates the monitoring of receivables, performance of collection activity, reconciliation with third parties and analysis of contract compliance and performance.
 - calculates expected payments and contractual allowances for all accounts and reports net receivables by contract, carrier, or individual account;
 - automatically creates third-party logs as a by-product of billing;
 - breaks down and ages each account's receivables according to the responsible payor. Aging reports accurately reflect each payor's receivables to facilitate collection activity and reporting.
- Multiple entity billing allows multiple entities to use single-statement billing and registration across the entire enterprise. Patient financial records may be maintained indefinitely by the entity and the enterprise which allows enterprise-wide access and outcomes analysis.

Sunrise Decision Support Manager. Sunrise Decision Support Manager creates a clinical and financial data repository by integrating data from throughout the enterprise. Sunrise Decision Support Manager gathers information from the many different departmental information systems through connections that enable concurrent updating of distributed data. The data can then be analyzed to determine the patient-level costs of care and identify areas for improvement. This information allows the organization to evaluate its cost structure, make changes in clinical processes to reduce costs and accurately price reimbursement contracts on a profitable basis. Sunrise Decision Support Manager also analyzes and measures clinical process and outcomes data, helping to identify the practice patterns that most consistently result in the highest quality care at the lowest cost. Sunrise Decision Support Manager is an important component of our customers' ability to measure and document improved clinical outcomes and return on investment. Sunrise Decision Support Manager includes support for:

- case mix, reimbursement and utilization management;
- cost and profitability analysis; and
- strategic planning, modeling and forecasting.

Sunrise Record Manager. Sunrise Record Manager is designed to meet the healthcare information management needs of organizations of virtually any size. It includes comprehensive applications for clinical data management and enterprise-wide document and image-management functions designed to improve productivity, efficiency and accountability. Sunrise Record Manager provides multiple users with convenient and concurrent access to information, wherever they may be throughout the organization. Sunrise Record Manager includes:

- registration scanning to capture patient identification and consent forms and other documents;
- document imaging and document scanning; interfaces with other electronic document systems;

- tools for managing patient medical records, including tracking record locations, chart requests, and secured release of information;
- workflow tools for managing record movement between workgroups and areas in the operational team;
- Joint Commission on Accreditation of Healthcare Organizations-compliant deficiency and chart completion management functions, including HIPAA-compliant electronic signature functions;
- medical records abstracting, working with industry standard encoders;
- patient account management functionality, including workflow, interfaces, remit processing, forms overlay and document image management; and
- tools to manage enterprise documents for human resources, materials management and other applications not involving patient care.

Sunrise Enterprise Application Integrator (eWebIT). Sunrise Enterprise Application Integrator provides tools to enable the integration of data from a customer's existing systems. As integrated health networks emerge, the individual entities within the network will often have their own different information systems. The clinical and financial data in these disparate systems must be integrated to provide an enterprise-wide view. Sunrise Enterprise Application Integrator's product suite includes tools to achieve this integration, primarily through the use of Web-based integration technologies. Sunrise Enterprise Application Integrator achieves a comprehensive integration solution which provides:

- a Web-based composite view of data from different information systems;
- data sharing among disparate information systems; and
- enterprise security and single system sign-on capabilities.

Hardware and Related Offerings. Finally, as part of our commitment to being a comprehensive healthcare information solutions provider, we also sell a variety of desktop, network and platform solutions including hardware, middleware and related services.

Services

Drawing on the functionality and flexibility of our software products, we offer a range of professional services as part of our healthcare information technology solutions. These services consist of the following:

- **Implementation, Integration, Product Support, Training and Maintenance** — To facilitate successful product implementation, our consultants assist our customers with initial installation of a system, conversion and integration of their historical data and ongoing training and support. We offer 24-hour support and electronic distribution to provide our customers with the latest information regarding our products. We also provide regular maintenance releases to our customers. Our service and support activities are supplemented by comprehensive training programs, including introductory training courses for new customers and seminars for existing customers, to allow them to take full advantage of the capabilities of our products.
- **Outsourcing Services** — We assume the management of the customer's entire information-technology function onsite using our employees. Outsourcing services include facilities management, network outsourcing and transition management.
 - Facilities management enables our customers to improve their information-technology operations by having us assume responsibility for all aspects of the customer's onsite information-technology operations, from equipment to human resources.
 - Network outsourcing provides our customers with total healthcare information network support, relieving them of the need to secure and maintain expensive resources in a rapidly changing technological environment.

- Transition management offers our customers a solution for migrating their information technology to new processes, technologies or platforms without interfering with the existing rules and initiatives critical to the delivery of healthcare.
- **Remote Hosting Services** — We assume the complete processing of our customers' applications from our Technology Solutions Center using our equipment and personnel. This service frees an organization from the need to maintain the environment, equipment and technical staff required for systems processing and offers support for an organization's fault-management, configuration-management and utilization-management processes.
- **Network Services** — We offer a comprehensive package of services that enable our customers to receive critical data quickly and accurately without incurring a substantial increase in cost. We assess changes in network utilization and function, forecast any necessary upgrades to accommodate the customer's growth and design any changes necessary to provide the customer with the required performance and functionality. We offer our services in various forms, ranging from onsite assistance on a time-and-expense basis to complete turnkey project deliveries with guaranteed fixed price rates.
- **Business Solutions Consulting** — Our business solutions services aid our customers in achieving improved return on investment through their use of information obtained from our products. The members of our business solutions group have wide and varied experience in healthcare delivery and healthcare information management, enabling them to help customers effectively manage change that will ensure maximum return on investment and improved outcomes.

Technology

We have defined a single, unifying web-based architecture for our products. We have continually enhanced and expanded our architecture and it is engineered to achieve the following objectives:

- to remain open and modular;
- to be scalable and flexible;
- to increase speed of implementation; and
- to reduce the total cost of ownership.

Our architecture also features a high-performance rules engine to implement a sizable portion of the business logic for our products. These rules guide clinical and business workflow, clinical decision support for order entry, clinical and financial event monitoring and screen logic, enabling structured development of new applications while maintaining consistency across applications. Because the rules are managed and stored as data, customers are able to update the business logic without modifying and distributing new code. This enables customers to reduce programming expenses, while enhancing the flexibility of our applications and facilitating their rapid adoption.

Our Web-based architecture uses advanced technology to maintain security both across Internet connections and within an organization's internal network. This ability to support secure communications and incorporate reliable protocols for authenticating users and services enhances the ability of an organization to maintain the confidentiality of patient information.

We are in the process of enhancing each software component to take advantage of our Web-based architecture, which we believe will facilitate integration, enhance automation, increase reliability and improve security and workflow processes. Our architecture draws on a Web-based architecture to integrate business logic with an intuitive graphical user interface, thereby enhancing automation and reducing the cost of ownership. In October 2001, we announced SunriseXA™, which is our next generation product and service offering. SunriseXA™ will be a Web-based solution that will build upon the knowledge-driven, work-flow enhancing components of our Sunrise suites. SunriseXA™'s extended architecture is built on Microsoft

Corporation's Web-based infrastructure, .NET. Our SunriseXA™ products will feature the following attributes:

- Modular and component-based architecture;
- Standards-based;
- Internet-based; and
- Intrinsic integration.

Along with the change in architecture and platform, SunriseXA™ is designed to address the core processes in the healthcare organization. We believe core processes include the care, patient-flow, revenue administration and consumer relations processes.

We expect our products to be released on the .NET infrastructure over the course of the next 18 months.

Customers, Marketing and Sales

Our marketing and sales efforts focus on large health care organizations, primarily academic medical centers. We sell our products and services in North America exclusively through our direct sales force. Management of the sales force is decentralized, with six regional presidents having primary responsibility for sales and marketing within their regions. National account representatives manage some multi-region accounts. Within each region, the direct sales force is generally organized into two groups, one focused principally on generating sales to new customers and the other focused on additional sales to existing customers. The direct sales force works closely with our implementation and product line specialists. Supporting the field staff is a team of domain experts who have extensive experience and expertise in their specific field. A significant component of compensation for all direct sales personnel is performance based, although we base incentive compensation on a number of factors in addition to actual sales, including customer satisfaction and accounts receivable performance.

Research and Development

Eclipsys believes that future success depends on our ability to maintain and enhance our current product lines, develop new products, maintain technological competitiveness and respond to an expanding range of customer requirements. Currently, we are developing web-based components based on the Microsoft .NET framework and other industry standards and are creating incremental functionality and new applications for existing software applications.

Competition

Intense competition, rapidly changing technology, evolving user needs and frequent introduction of new products characterize the market for our products and services. Our principal competitors include Cerner Corporation, McKesson/HBOC Inc., Quadramed, IDX Systems Corp. and Siemens Medical Services Health Services Corporation, formerly Shared Medical Systems. Other competitors include providers of practice management, general decision support and database systems as well as segment-specific applications and healthcare technology consultants.

Several of our competitors are better established, benefit from greater name recognition and have significantly more financial, technical and marketing resources than we do. We also anticipate that competition will further increase in the healthcare information technology sector as a result of continued consolidation in both the information technology and healthcare industries. Principal factors impacting competition in this market include product functionality, performance, flexibility and features, use of open industry standards, quality of customer service and support, company reputation, price and total cost of ownership.

Employees

As of December 31, 2001, we employed 1,392 people, including:

- 446 in field operations;
- 188 in sales, marketing and account management;
- 645 in research, development and product delivery; and
- 113 in finance, human resources, legal and other administrative functions.

Our success depends on our continued ability to attract and retain highly skilled and qualified personnel. Competition for such personnel is intense in the information-technology industry, particularly for talented software developers, service consultants and sales and marketing personnel. We cannot assure you that we will be able to attract and retain qualified personnel in the future. Our employees are not represented by any labor unions. We consider our relations with our employees to be good.

Risk Factors

You should carefully consider the following risk factors and all other information contained in this annual report before investing in our common stock. Investing in our common stock involves a high degree of risk. Any of the following factors could harm our business and future operating results.

Given the length of our sales and implementation cycles, if a significant number of our customers delay implementation, our future operating results may suffer

We have experienced long sales and implementation cycles. How and when to implement, replace, expand or substantially modify an information system, or modify or add business processes, are major decisions for healthcare organizations. Furthermore, the solutions we provide typically require significant capital expenditures by the customer. The sales cycle for our systems has ranged from 6 to 18 months or more from initial contact to contract execution. Historically, our implementation cycle has ranged from 6 to 36 months from contract execution to completion of implementation. During the sales cycle and the implementation cycle, we will expend substantial time, effort and financial resources preparing contract proposals, negotiating the contract and implementing the solution. We may not realize any revenues to offset these expenditures, and, if we do, accounting principles may not allow us to recognize the revenues during corresponding periods, which could harm our future operating results. Additionally, any decision by our customers to delay implementation may adversely affect our revenues.

The healthcare industry faces financial constraints that could adversely affect the demand for our products and services

The healthcare industry has faced, and will likely continue to face, significant financial constraints. For example, the shift to managed healthcare in the 1990s put pressure on healthcare organizations to reduce costs, and the Balanced Budget Act of 1997 dramatically reduced Medicare reimbursement to healthcare organizations. Our solutions often involve a significant financial commitment by our customers, and, as a result, our ability to grow our business is largely dependent on our customers' information technology budgets. To the extent healthcare information technology spending declines or increases more slowly than we anticipate, demand for our products would be adversely affected.

We have a history of operating losses and we cannot predict future profitability

Prior to 2001, we incurred net losses in each year since our inception, including net losses of \$126.3 million in 1997, \$35.3 million in 1998, \$9.4 million in 1999 and \$34.0 million in 2000. Although we had net income in 2001, we had a loss from operations of \$1.6 million. We cannot predict whether or not we will continue to be profitable in the future.

Our operating results may fluctuate significantly and may cause our stock price to decline

We have experienced significant variations in revenues and operating results from quarter to quarter. Our quarterly operating results may continue to fluctuate due to a number of factors, including:

- the timing, size and complexity of our product sales and implementations;
- overall demand for healthcare information technology;
- the financial condition of our customers and potential customers;
- market acceptance of new services, products and product enhancements by us and our competitors;
- product and price competition;
- the relative proportions of revenues we derive from systems and services and from hardware;
- changes in our operating expenses;
- the timing and size of future acquisitions;
- personnel changes;
- the performance of our products; and
- fluctuations in general economic and financial market conditions, including interest rates.

It is difficult to predict the timing of revenues from product sales because the sales cycle can vary depending upon several factors. These factors include the size of the transaction, the changing business plans of the customer, the effectiveness of the customer's management and general economic conditions. In addition, depending upon the extent to which our customers elect to license our products under comprehensive bundled arrangements, the timing of revenue recognition could vary considerably. Under comprehensive bundled arrangements, revenues are recognized under the terms of the contract consistent with the timing of performance of all services offered under the arrangement. Generally, less revenue is recognized under these arrangements during the first 12 to 24 months compared to our more traditional licensing arrangements. We will also continue to offer contracts using our more traditional licensing arrangements, under which revenue is recognized on a percentage-of-completion basis. For these contracts, the revenue recognition will depend upon a variety of factors including the availability of implementation personnel, the implementation schedule and the complexity of the implementation process. Because a significant percentage of our expenses will be relatively fixed, a variation in the timing of sales and implementations could cause significant variations in operating results from quarter to quarter. We believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful. You should not rely on these comparisons as indicators of future performance.

We operate in an intensely competitive market that includes companies that have greater financial, technical and marketing resources than we do

We operate in a market that is intensely competitive. Our principal competitors include Cerner Corp., McKessonHBOC, Inc., Quadramed, IDX Systems Corp. and Siemens. We also face competition from providers of practice management systems, general decision support and database systems and other segment-specific applications, as well as from healthcare technology consultants. A number of existing and potential competitors are more established than we are and have greater name recognition and financial, technical and marketing resources than we do. We expect that competition will continue to increase. Increased competition could harm our business.

If the healthcare industry continues to undergo consolidation, this could impose pressure on our products' prices, reduce our potential customer base and reduce demand for our products

Many healthcare providers have consolidated to create larger healthcare delivery enterprises with greater market power. If this consolidation continues, it could erode our customer base and could reduce the size of

our target market. In addition, the resulting enterprises could have greater bargaining power, which may lead to erosion of the prices for our products.

Potential regulation by the U.S. Food and Drug Administration of our products as medical devices could impose increased costs, delay the introduction of new products and hurt our business

The U.S. Food and Drug Administration, or FDA, is likely to become increasingly active in regulating computer software intended for use in the healthcare setting. The FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the federal Food, Drug, and Cosmetic, or FDC Act. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us, including the following:

- requiring us to seek FDA clearance of a pre-market notification submission demonstrating that the product is substantially equivalent to a device already legally marketed, or to obtain FDA approval of a pre-market approval application establishing the safety and effectiveness of the product;
- requiring us to comply with rigorous regulations governing the pre-clinical and clinical testing, manufacture, distribution, labeling and promotion of medical devices; and
- requiring us to comply with the FDC Act's general controls, including establishment registration, device listing, compliance with good manufacturing practices, reporting of specified device malfunctions and adverse device events.

If we fail to comply with applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance or approval of products, withdrawing clearances and approvals, and initiating criminal prosecution. Any final FDA policy governing computer products, once issued, may increase the cost and time to market of new or existing products or may prevent us from marketing our products.

New and potential federal regulations relating to patient confidentiality could depress the demand for our products and impose significant product redesign costs on us

State and federal laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern both the disclosure and use of confidential patient medical record information and may require the users of such information to implement specified security measures. Regulations governing electronic health data transmissions may change rapidly and be unclear or difficult to apply.

On August 22, 1996, former President Clinton signed the Health Insurance Portability and Accountability Act of 1996, or HIPAA. This legislation required the Secretary of Health and Human Services, or HHS, to adopt national standards for some types of electronic health information transactions and the data elements used in those transactions, adopt standards to ensure the integrity and confidentiality of health information, and establish a schedule for implementing national health data privacy legislation or regulations. In December 2000, HHS published its final health data privacy regulations, which will take effect in December 2002 and with which healthcare organizations will have to comply by October 2003. These regulations restrict the use and disclosure of personally identifiable health information without the prior informed consent of the patient. HHS has not yet issued final rules on most of the other topics under HIPAA and has yet to issue proposed rules on some topics. The final rules, if and when issued, may differ from the proposed rules. We cannot predict the potential impact of the rules that have not yet been proposed or any other rules that might be finally adopted instead of the proposed rules. In addition, other federal and/or state privacy legislation may be enacted at any time.

These laws or regulations, when adopted, could restrict the ability of our customers to obtain, use or disseminate patient information. This could adversely affect demand for our products and force us to re-design our products in order to meet the requirements of any new regulations. We have included security features in our products that are intended to protect the privacy and integrity of patient data. Despite the existence of these security features, these products may be vulnerable to break-ins and similar disruptive problems that

could jeopardize the security of information stored in and transmitted through the computer systems of our customers. We may need to expend significant capital, research and development and other resources to modify our products to address evolving data security and privacy issues.

Our products are used to assist clinical decision-making and provide information about patient medical histories and treatment plans, and if these products fail to provide accurate and timely information, our customers could assert claims against us that could result in substantial cost to us, harm our reputation in the industry and cause demand for our products to decline

We provide products that assist clinical decision-making and relate to patient medical histories and treatment plans. If these products fail to provide accurate and timely information, customers could assert liability claims against us. Litigation with respect to liability claims, regardless of its outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit by contract our liability for damages arising from negligence, errors or mistakes. Despite this precaution, the limitations of liability set forth in our contracts may not be enforceable or may not otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors or omissions. However, this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against us. In addition, the insurer might disclaim coverage as to any future claim. One or more large claims could exceed our available insurance coverage.

Highly complex software products such as ours often contain undetected errors or failures when first introduced or as updates and new versions are released. It is particularly challenging for us to test our products because it is difficult to simulate the wide variety of computing environments in which our customers may deploy them. Despite extensive testing, from time to time we have discovered defects or errors in our products. Defects, errors or difficulties could cause delays in product introductions and shipments, result in increased costs and diversion of development resources, require design modifications or decrease market acceptance or customer satisfaction with our products. In addition, despite testing by us and by current and potential customers, errors may be found after commencement of commercial shipments, resulting in loss of or delay in market acceptance.

If we undertake additional acquisitions, they may be disruptive to our business and could have an adverse effect on our future operations and the market price of our common stock

An important element of our business strategy has been expansion through acquisitions. Since 1997, we have completed eight acquisitions. Any future acquisitions would involve a number of risks, including the following:

- The anticipated benefits from any acquisition may not be achieved. The integration of acquired businesses requires substantial attention from management. The diversion of the attention of management and any difficulties encountered in the transition process could hurt our business.
- In future acquisitions, we could issue additional shares of our capital stock, incur additional indebtedness or pay consideration in excess of book value, which could have a dilutive effect on future net income, if any, per share.
- New business acquisitions must be accounted for under the purchase method of accounting. These acquisitions may generate significant intangible assets and result in substantial related amortization charges to us.

If we fail to attract, motivate and retain highly qualified technical, marketing, sales and management personnel, our ability to execute our business strategy could be impaired

Our success depends, in significant part, upon the continued services of our key technical, marketing, sales and management personnel and on our ability to continue to attract, motivate and retain highly qualified employees. Competition for these employees is intense. In addition, the process of recruiting personnel with

the combination of skills and attributes required to execute our business strategy can be difficult, time-consuming and expensive. We believe that our ability to implement our strategic goals depends to a considerable degree on our senior management team. The loss of any member of that team, particularly Harvey J. Wilson, our founder, chairman of the board and chief executive officer, could hurt our business.

Changing customer requirements could decrease the demand for our products, which could harm our business and decrease our revenues

The market for our products and services is characterized by rapidly changing technologies, evolving industry standards and new product introductions and enhancements that may render existing products obsolete or less competitive. As a result, our position in the healthcare information technology market could erode rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. Our future success will depend in part upon our ability to enhance our existing products and services and to develop and introduce new products and services to meet changing customer requirements. The process of developing products and services such as those we offer is extremely complex and is expected to become increasingly complex and expensive in the future as new technologies are introduced. If we are unable to enhance our existing products or develop new products to meet changing customer requirements, demand for our products could suffer.

We depend on licenses from third parties for rights to the technology used in several of our products, and if we are unable to continue these relationships and maintain our rights to this technology, our business could suffer

We depend upon licenses for some of the technology used in our products from a number of third-party vendors, including Computer Corporation of America, Computer Associates, Oracle Corporation and Microsoft. We also have licenses from Premier, Inc. for comparative database systems and other software components and clinical benchmarking data. Most of these licenses expire within one to four years, can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time. We may not be able to continue using the technology made available to us under these licenses on commercially reasonable terms or at all. As a result, we may have to discontinue, delay or reduce product shipments until we obtain equivalent technology, which could hurt our business. Most of our third-party licenses are non-exclusive. Our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. In addition, if our vendors choose to discontinue support of the licensed technology in the future, we may not be able to modify or adapt our own products.

Our products rely on our intellectual property, and any failure by us to protect our intellectual property, or any misappropriation of it, could enable our competitors to market products with similar features, which could reduce demand for our products

We are dependent upon our proprietary information and technology. Our means of protecting our proprietary rights may not be adequate to prevent misappropriation. The laws of some foreign countries may not protect our proprietary rights as fully as do the laws of the United States. Also, despite the steps we have taken to protect our proprietary rights, it may be possible for unauthorized third parties to copy aspects of our products, reverse engineer our products or otherwise obtain and use information that we regard as proprietary. In some limited instances, customers can access source-code versions of our software, subject to contractual limitations on the permitted use of the source code. Although our license agreements with these customers attempt to prevent misuse of the source code, the possession of our source code by third parties increases the ease and likelihood of potential misappropriation of such software. Furthermore, others could independently develop technologies similar or superior to our technology or design around our proprietary rights. In addition, infringement or invalidity claims or claims for indemnification resulting from infringement claims could be asserted or prosecuted against us. Regardless of the validity of any claims, defending against these claims could result in significant costs and diversion of our resources. The assertion of infringement claims could also result in injunctions preventing us from distributing products. If any claims or actions are asserted against us,

we might be required to obtain a license to the disputed intellectual property rights, which might not be available on reasonable terms or at all.

Provisions of our charter documents and Delaware law may inhibit potential acquisition bids that a stockholder may believe is desirable, and the market price of our common stock may be lower as a result

Our board of directors has the authority to issue up to 4,900,000 shares of preferred stock. The board of directors can fix the price, rights, preferences, privileges and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may discourage, delay or prevent a merger or acquisition of our company. The issuance of preferred stock may result in the loss of voting control to other stockholders. We have no current plans to issue any shares of preferred stock. In August 2000, our board of directors adopted a shareholder rights plan under which we issued preferred stock purchase rights that would adversely affect the economic and voting interests of a person or group that seeks to acquire us or a 15% or more interest in our common stock without negotiations with our board of directors.

Our charter documents contain additional anti-takeover devices including:

- only one of the three classes of directors is elected each year;
- the ability of our stockholders to remove directors without cause is limited;
- the right of stockholders to act by written consent has been eliminated;
- the right of stockholders to call a special meeting of stockholders has been eliminated; and
- advance notice must be given to nominate directors or submit proposals for consideration at stockholder meetings;

Section 203 of the Delaware corporate statute may inhibit potential acquisition bids for our company. We are subject to the anti-takeover provisions of the Delaware corporate statute, which regulate corporate acquisitions. Delaware law will prevent us from engaging, under specified circumstances, in a business combination with any interested stockholder for three years following the date that the interested stockholder became an interested stockholder unless our board of directors or a supermajority of our uninterested stockholders agree. For purposes of Delaware law, a business combination includes a merger or consolidation involving us and the interested stockholder and the sale of more than 10% of our assets. In general, Delaware law defines an interested stockholder as any holder beneficially owning 15% or more of the outstanding voting stock of a corporation and any entity or person affiliated with or controlling or controlled by the holder.

These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our common stock. As a result, these provisions may prevent the market price of our common stock from increasing substantially in response to actual or rumored takeover attempts. These provisions may also prevent changes in our management.

Set forth below is certain information regarding the Company's executive officers:

Executive Officers of the Registrant

<u>Name</u>	<u>Age</u>	<u>Title</u>
Harvey J. Wilson	63	Chief Executive Officer and Chairman of the Board of Directors
James E. Hall	68	President
John T. Patton Jr.	52	Executive Vice President and Chief Operating Officer
Robert J. Colletti	43	Senior Vice President, Chief Financial Officer and Treasurer
T. Jack Risenhoover, II	36	Senior Vice President and Secretary

Harvey J. Wilson, our founder, served as our president, chief executive officer and chairman of the board of directors since we were formed in December 1995 until February 1999, and continues to serve as chief

executive officer and chairman of the board of directors. Mr. Wilson was a co-founder of Shared Medical Systems Corporation, or SMS, a healthcare information systems provider.

James E. Hall has served as our president since February 1999. Mr. Hall also served as chief operating officer from January 1997 to April 2001. From August 1995 to January 1997, Mr. Hall was senior vice president of sales and marketing for Multimedia Medical Systems, Inc., a clinical information systems company.

John T. Patton Jr. has served as executive vice president and chief operating officer since April 2001. From July 2000 to April 2001, Mr. Patton was senior vice president of product development. Mr. Patton was area senior vice president from January 1999 to July 2000 and prior to that served as regional president since joining us in April 1997. Prior to joining us, Mr. Patton worked at SMS for 21 years.

Robert J. Colletti has served as our senior vice president and chief financial officer since August 2001. From June to August 2001, he served as senior vice president of finance and chief accounting officer and, from January 1997 to June 2001, as our senior vice president of finance.

T. Jack Risenhoover, II has served as our senior vice president and secretary since March 2000. He was vice president and secretary from February 1997 through March 2000. Mr. Risenhoover also served as general counsel from February 1997 through March 2002. From May 1994 to January 1997, Mr. Risenhoover was general counsel for The Right Angle, Inc., a marketing firm.

Item 2. Properties

In February of 2002, we consolidated our corporate offices into a single building located in Boca Raton, Florida under a lease that expires in February 2008. In addition, we maintain leased office space in Phoenix, Arizona; Tucson, Arizona; Newport Beach, California; San Jose, California; Santa Clara, California; Santa Rosa, California; Alpharetta, Georgia; Atlanta, Georgia; Oak Brook, Illinois; Rockville, Maryland; Boston, Massachusetts; Mountain Lakes, New Jersey; Albany, New York; Uniondale, New York; Malvern, Pennsylvania and Richmond (a suburb of Vancouver), British Columbia. These leases expire at various times through June 2009.

Item 3. Legal Proceedings

We are involved, from time to time, in routine litigation that arises in the ordinary course of business, but are not currently involved in any litigation that we believe could reasonably be expected to have a material adverse effect on our business or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our stockholders during the fourth quarter of 2001.

Part II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Price Range of Common Stock

Our common stock has been publicly traded on the Nasdaq National Market under the symbol "ECLP" since our initial public offering on August 6, 1998. The following table shows the high and low sales prices of our common stock as reported by the Nasdaq National Market for the periods indicated.

	<u>High</u>	<u>Low</u>
<u>2000</u>		
First quarter	\$31.06	\$16.50
Second quarter	\$20.50	\$ 6.44
Third quarter	\$17.00	\$ 7.08
Fourth quarter	\$28.00	\$14.13
<u>2001</u>		
First quarter	\$28.81	\$14.38
Second quarter	\$25.20	\$17.19
Third quarter	\$28.10	\$11.34
Fourth quarter	\$17.45	\$10.30
<u>2002</u>		
First quarter (through March 19)	\$17.85	\$14.29

Holders of Record

On March 19, 2002, the last reported sale price of our common stock on the Nasdaq National Market was \$15.87 per share. Also as of March 19, 2002, we had approximately 161 stockholders of record, and we believe our common stock was owned beneficially by approximately 7,000 stockholders.

Dividends

We have never paid or declared any cash dividends on our common stock or other securities and do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain all future earnings, if any, for use in the operation of our business.

Item 6. Selected Financial Data

You should read the following selected financial data in conjunction with our consolidated financial statements and the related notes thereto, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this document. The statement of operations data for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data at December 31, 2000 and 2001 are derived from, and are qualified by reference to, our audited consolidated financial statements, which appear elsewhere in this document. The statement of operations data for the years ended December 31, 1997 and 1998 and the balance sheet data at December 31, 1997, 1998 and 1999 set forth below, are derived from, and are qualified by reference to, our audited consolidated financial statements, which are not included in this document and are retroactively restated to give effect to the pooling of Transition Systems, Inc., MSI Solutions, Inc. and PowerCenter Systems, Inc, acquisitions that are discussed in more detail in Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations. Historical results are not necessarily indicative of results that you may expect for any future period.

	Year Ended December 31, (In thousands, except share and per share data)				
	1997	1998	1999	2000	2001
Statement of Operations Data:					
Total revenues	\$ 147,328	\$ 182,458	\$ 249,327	\$ 216,538	\$ 236,994
Costs and expenses:					
Cost of revenues	95,626	106,909	145,918	149,259	133,936
Sales and marketing	22,902	29,651	36,316	40,143	42,698
Research and development	21,369	37,139	44,151	37,382	37,034
General and administrative	10,179	11,107	11,426	10,380	10,278
Depreciation and amortization	11,514	11,981	15,415	14,906	15,108
Write-down of investment	—	4,778	—	—	—
Write-off of in-process research and development	105,481	2,392	—	—	—
Write-off of MSA	—	7,193	—	—	—
Pooling and transaction costs	—	5,033	1,648	1,900	(472)
Restructuring charge	—	—	5,133	1,198	—
Total costs and expenses	267,071	216,183	260,007	255,168	238,582
Loss from operations	(119,743)	(33,725)	(10,680)	(38,630)	(1,588)
Interest income, net	1,511	2,701	1,235	1,075	5,996
Other income, net	—	—	—	3,596	—
(Loss) income before income taxes	(118,232)	(31,024)	(9,445)	(33,959)	4,408
Provision for income taxes	8,096	4,252	—	—	—
Net (loss) income	(126,328)	(35,276)	(9,445)	(33,959)	4,408
Dividends and accretion on mandatorily redeemable preferred stock	(5,850)	(10,928)	—	—	—
Preferred stock conversion	(3,105)	—	—	—	—
Net (loss) income available to common stockholders	<u>\$ (135,283)</u>	<u>\$ (46,204)</u>	<u>\$ (9,445)</u>	<u>\$ (33,959)</u>	<u>\$ 4,408</u>
Basic net (loss) income per common share	\$ (8.60)	\$ (1.95)	\$ (0.27)	\$ (0.92)	\$.10
Diluted net (loss) income per common share	\$ (8.60)	\$ (1.95)	\$ (0.27)	\$ (0.92)	\$.09
Basic weighted average common shares outstanding	15,734,208	23,668,072	34,803,934	36,765,975	43,243,512
Diluted weighted average common shares outstanding	15,734,208	23,668,072	34,803,934	36,765,975	46,795,361

	Year Ended December 31, (in thousands)				
	1997	1998	1999	2000	2001
Balance Sheet Data:					
Cash and cash equivalents	\$ 63,914	\$ 37,983	\$ 33,956	\$ 20,799	\$168,942
Working capital	34,870	25,724	33,103	17,985	174,951
Total assets	201,327	221,014	202,935	156,112	300,494
Debt, including current portion	18,038	1,890	—	1,491	—
Mandatorily redeemable preferred stock	35,607	—	—	—	—
Stockholders' equity	58,882	98,442	101,301	73,404	218,201

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

We were founded in December 1995 and initially grew through a series of strategic acquisitions which were completed by June 1999. For acquisitions accounted for as a purchase, our consolidated financial statements reflect the financial results of the purchased entities from the respective dates of the purchase. For all transactions accounted for using the pooling of interests method, our consolidated financial statements have been retroactively restated as if the transactions had occurred at the beginning of the earliest period presented. Our acquisitions are summarized in the following table:

<u>Transaction</u>	<u>Date</u>	<u>Method of Accounting</u>
ALLTEL Healthcare Information Services, Inc., or Alltel	1/24/97	Purchase
SDK Medical Computer Services Corporation, or SDK	6/26/97	Purchase
Emtek Healthcare Systems, or Emtek a division of Motorola, Inc., or Motorola	1/30/98	Purchase
HealthVISION, Inc., (acquired by Transition) or HealthVISION	12/3/98	Purchase
Transition Systems, Inc., or Transition	12/31/98	Pooling
PowerCenter Systems, Inc., or PCS	2/17/99	Pooling
Intelus Corporation, or Intelus and MedData Systems, Inc., or Med Data, wholly owned subsidiaries of Sun Gard Data Systems, Inc.	3/31/99	Purchase
MSI Solutions, Inc. and MSI Integrated Services, Inc., or collectively MSI	6/17/99	Pooling

During July 1999, we invested in HEALTHvision, Inc., or HEALTHvision, a Dallas-based, privately held internet healthcare company, in conjunction with VHA, Inc. and investment entities affiliated with General Atlantic Partners, LLC. HEALTHvision provides Internet solutions to hospital organizations to assist them in improving patient care in the local communities they serve. We purchased 3,400,000 shares of common stock for \$34,000, which at the time represented 34% of the outstanding common stock on an if-converted basis. As of December 31, 2001, our shares represented approximately 28% of the common stock of HEALTHvision on an if-converted basis. We account for our investment in HEALTHvision using the equity method of accounting. In connection with our relationship with HEALTHvision, we have entered into a joint marketing arrangement under which both organizations agreed to jointly market products and services to their customers. Under this agreement, we paid HEALTHvision \$1.1 million during 2001 for the sale of products and services. During 2001, we earned revenues from HEALTHvision of \$2.6 million for hosting and other related services and had accounts receivable due from HEALTHvision of \$1.0 million at December 31, 2001. Our Chairman and CEO serves as co-chairman of HEALTHvision.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are discussed in detail in Note 2 to the consolidated financial statements. Some of these accounting policies as discussed below require management

to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities.

For contracts under which we recognize revenue under the percentage-of-completion method, revenues are recognized based upon the proportion of labor hours incurred in relation to the total labor hours estimated under the agreement. The percentage-of-completion method is used when management determines that services are essential to the functionality of the software sold. Determining factors for percentage-of-completion include the nature of services required and the provision for payments of software and services upon the achievement of implementation milestones. Under the percentage-of-completion method, revenue and profit are recognized throughout the term of the contract, based upon estimates of the total labor hours to be incurred and revenues to be generated throughout the term of the contract. Changes in estimates of total labor hours and the related effect on the timing of revenues and profits are recognized in the period in which they are determinable. Accordingly, changes in these estimates could occur and could have a material effect on our operating results in the period of change.

In evaluating the collectibility of our accounts receivable, we assess a number of factors including a specific customer's ability to meet its financial obligations to us, as well as general factors, such as the length of time the receivables are past due and historical collection experience. Based on these assessments, we record both specific and general reserves for bad debt to reduce the related receivables to the amount we ultimately expect to collect from customers. If circumstances related to specific customers change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of our accounts receivable could be further reduced from the levels provided for in the consolidated financial statements.

At each balance sheet date, we perform a detailed assessment of our capitalized software development costs to be marketed which includes a review of, among other factors, projected revenues, customer demand requirements, product lifecycle, changes in software and hardware technologies and product development plans. Based on this analysis, we record adjustments, when appropriate, to reflect the net realizable value of our capitalized software development costs. The estimates of expected future revenues generated by the software, the remaining economic life of the software, or both, could change, materially affecting the carrying value of capitalized software development costs as well as our consolidated operating results in the period of change.

Revenues

Revenues are derived from the sale of systems and services, which include the licensing of software, software and hardware maintenance, implementation and training, remote hosting, outsourcing, networking services and consulting, and from the sale of computer hardware. Our products and services are generally sold to customers pursuant to contracts that range in duration from three to ten years.

We generally contract under multiple element arrangements which include software license fees, hardware and services including consulting, implementation and software maintenance. Under these arrangements, where vendor specific objective evidence exists for all undelivered elements, we account for the delivered elements in accordance with the "residual method" prescribed by the AICPA Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect of Certain Transactions." For arrangements in which vendor specific objective evidence does not exist for each element, including specified upgrades, revenue is deferred and not recognized until delivery of all of the elements without vendor specific objective evidence has occurred. For software license arrangements that are bundled with services and maintenance where services are considered essential to the functionality of the software and provide for payments upon the achievement of implementation milestones, we recognize revenues using the percentage-of-completion method. Under these arrangements, software license fees and implementation fees are recognized over the implementation period, which has typically ranged from 12 to 24 months.

Revenues from other software licenses, which are bundled with long-term maintenance agreements, are recognized on a straight-line basis over the contracted maintenance period. Remote hosting and outsourcing services are marketed under long-term agreements that are generally of five to ten years in duration. Revenues under these arrangements are recognized monthly as the work is performed. Revenues related to other support

services, such as training, consulting, and other implementation services, are recognized when the services are performed. We recognize revenues from the sale of hardware upon delivery of the equipment to the customer.

In 2000, in response to our customers' desire for flexible pricing and more comprehensive bundled information technology solutions, we began to offer our customers the option of purchasing our solutions under arrangements that bundled the software license fees, including the right to future products within the applicable suite, with the implementation, maintenance, outsourcing, remote hosting, networking services and other related services in one comprehensive contract that provides for monthly or annual payments over the term of the contract. We generally recognize revenues under these arrangements on a monthly basis over the term of the contract, which typically ranges from seven to ten years.

Costs of Revenues

The principal costs of systems and services revenues are salaries, benefits and related overhead costs for implementation, remote hosting and outsourcing personnel. Other significant costs of systems and services revenues are the amortization of acquired technology, capitalized software development costs and a network services intangible asset. Acquired technology is amortized over three to five years based upon the estimated economic life of the underlying asset, and capitalized software development costs are amortized generally over three years on a straight-line basis commencing upon general release of the related product or based on the ratio that current revenues bear to total anticipated revenues for the applicable product. The network services intangible asset, which was amortized on a straight-line basis over three years, became fully depreciated in March 2001. Cost of revenues related to hardware sales includes only our cost to acquire the hardware from the manufacturer.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries, benefits, commissions and related overhead costs. Other costs include expenditures for marketing programs, public relations, trade shows, advertising and related communications.

Research and Development

Research and development expenses consist primarily of salaries, benefits and related overhead associated with our design, development and testing of new products. We capitalize internal software development costs subsequent to attaining technological feasibility. These costs are amortized as an element of cost of systems and services revenues.

General and Administrative

General and administrative expenses consist primarily of salaries, benefits and related overhead costs for administration, executive, finance, legal, human resources, purchasing and internal systems personnel, as well as accounting and legal fees and expenses.

Depreciation and Amortization

We depreciate the costs of our tangible capital assets on a straight-line basis over the estimated economic lives of the assets, which generally range from three to seven years. Acquisition-related intangible assets, which primarily consist of the value of ongoing customer relationships and goodwill, are amortized based upon the estimated economic life of the asset at the time of the acquisition, and will therefore vary among acquisitions. In accordance with Statement of Financial Accounting Standards, or SFAS, No. 142, our amortization of goodwill ceased as of January 1, 2002, leaving a recorded balance of \$454,000 of goodwill as of December 31, 2001. We will conduct an impairment review of our remaining goodwill balance on an annual basis.

Restructuring Charge

During 1999, we initiated and completed a restructuring of our operations, which resulted in a charge totaling \$5.1 million related to the closing of duplicate facilities and the termination of employees. During 2000, we initiated and completed another restructuring of our operations. This restructuring rationalized employee headcount after we completed the integration of our acquisitions. Additionally, we consolidated our research and development and implementation functions. Charges in connection with this restructuring in 2000 totaled \$1.2 million.

Taxes

As of December 31, 2001, we had operating loss carryforwards for federal income tax purposes of \$122.7 million. The carryforwards expire in varying amounts through 2021 and are subject to certain restrictions. Based on evidence then available, we did not record a benefit for the resulting net deferred tax asset at December 31, 1999, 2000 and 2001, because we believe it is more likely than not that we will not realize our net deferred tax asset. Accordingly, we have recorded a valuation allowance against our total net deferred tax asset.

Results of Operations

2001 Compared to 2000

Total revenues for the year ended December 31, 2001 increased \$20.5 million, or 9.5%, to \$237.0 million, from \$216.5 million for 2000. Systems and services revenues increased approximately \$17.1 million, or 8.4%, to \$220.5 million for the year ended December 31, 2001, from \$203.4 million for 2000. The increase in systems and services revenues in 2001 was primarily attributable to revenues generated under our comprehensive solutions offerings, which we began to offer during the second quarter of 2000, and other new contracted business. The comprehensive offerings may bundle software license fees (including the right to future products) within the applicable suite, implementation, maintenance, outsourcing, remote hosting, networking services and other related services into comprehensive contracts that generally provide for monthly or annual payments over the term of the contracts. Revenues under these arrangements are recognized on a monthly basis over the term of the contract, which typically ranges from seven to ten years. The increase in 2001 revenues was also contributed to by improvements we made in our product delivery area, which includes research and development, implementation and customer support. These functions were consolidated under one management team in 2000 to help improve all aspects of the product delivery cycle. Significant investments were made in this area to standardize the development, implementation and ongoing support of our products. These investments among other things have helped shorten the product development and implementation cycles while improving quality in each area. Additionally, we continue to gain market acceptance of our products. Our flagship product, Sunrise Clinical Manager, which was generally released in 1999, continues to gain market acceptance and has received strong ratings by independent market research firms. We also have seen increased activity in the revenue management area as hospitals have begun to replace legacy systems. Finally, outside organizations, including the Institute of Medicine, the Leapfrog Group and various state and local governments have begun to influence the industry with respect to patient safety initiatives. Based on the above contributing factors we experienced increased demand for our products and services in 2001.

Hardware revenues increased \$3.4 million, or 26.0%, to \$16.5 million for the year ended December 31, 2001, from \$13.1 million for 2000. The increase in hardware revenues in 2001 was primarily due to increased shipments under contracts entered into in 2000 and 2001.

Total cost of revenues decreased approximately \$15.4 million, or 10.3%, to \$133.9 million, or 56.5% of total revenues, for the year ended December 31, 2001, from \$149.3 million, or 68.9% of total revenues, for 2000. Cost of systems and services revenues decreased \$18.5 million, or 13.3%, to \$120.4 million, or 54.6% of systems and services revenues, for the year ended December 31, 2001, compared to \$138.9 million, or 68.3% of systems and services revenues, for 2000. These costs decreased primarily as a result of the realization of integration synergies and the restructurings discussed above, which resulted in lower salaries and payroll

related expenses, including medical insurance and travel. Additionally, as mentioned above, we reorganized the implementation organization to improve operating processes and procedures. In connection with the improvements related to the reorganization, we reduced the usage of outside consultants resulting in lower expenses. Another factor contributing to the decrease was lower amortization of acquisition related acquired technology and network services assets which amounted to \$18.4 million and \$16.6 million for 2000 and 2001, respectively. These cost savings were partially offset by higher amortization of capitalized software development costs that amounted to \$2.9 million and \$4.5 million for 2000 and 2001. Additionally, in 2000 we recorded an \$8.7 million charge related to the write-down of certain receivables assumed in acquisitions from previous years.

Cost of hardware revenues increased \$3.2 million, or 30.8%, to \$13.6 million, or 82.4% of hardware revenues, for the year ended December 31, 2001, compared to \$10.4 million, or 79.4% of hardware revenues, for 2000. The increase in cost of hardware revenues for 2001 was directly attributable to higher hardware revenues and lower margins due to pricing pressure in the hardware sector.

Sales and marketing expenses increased \$2.6 million, or 6.5%, to \$42.7 million, for the year ended December 31, 2001, from \$40.1 million, for 2000. However, as a percentage of total revenues, sales and marketing expenses declined slightly from 18.5% to 18.0%. The increase in sales and marketing expenses for 2001 was primarily due to an increase in commissions resulting from an increase in new contracted business as well as costs associated with newly implemented sales incentive programs. During the fourth quarter of 2001, we initiated a program to significantly increase the size of our sales and marketing organization. This program is expected to be completed by the end of 2002 and will result in higher expenses. The program was implemented to increase the sales presence of our sales organization and enhance the market awareness of our company and its products and services.

Research and development expenses were relatively flat at \$37.0 million, or 15.6% of total revenues, for the year ended December 31, 2001, compared to \$37.4 million, or 17.3% of total revenues, for 2000. The decrease in research and development expenses for 2001, was due primarily to the realization of integration synergies and the restructuring. The percentage of research and development expenditures capitalized for 2001 was 15.7%, compared to 14.6% for 2000. As a result of certain products becoming available for general release, amortization of capitalized software development costs, which is included in cost of systems and services revenues, increased by \$1.6 million to \$4.5 million for 2001, compared to \$2.9 million for 2000. Research and development expenses that were capitalized were \$6.4 million and \$6.9 million for 2000 and 2001, respectively. In the fourth quarter of 2001, we implemented a program to accelerate the development of our products with respect to our SunriseXA[™] initiative, which among other things, will migrate our products onto the Microsoft.NET platform. This initiative is expected to be substantially completed within the next 18 months and to result in higher expenses over this period.

General and administrative expenses were relatively consistent for the two years at \$10.3 million, or 4.3% of total revenues, for the year ended December 31, 2001 compared to \$10.4 million, or 4.8% of total revenues, for 2000.

Depreciation and amortization increased \$0.2 million, or 1.3%, to \$15.1 million, or 6.4% of total revenues, for the year ended December 31, 2001, from \$14.9 million, or 6.9% of total revenues, for 2000. The increase was primarily the result of depreciation of fixed assets purchased during 2001 partially offset by lower amortization of goodwill related to the HealthVISION acquisition, which became fully amortized in 2001. For 2000 and 2001, respectively, we recorded acquisition related amortization of \$7.2 million and \$6.7 million.

Pooling and transaction costs decreased \$2.4 million to (\$0.5) million for the year ended December 31, 2001, from \$1.9 million for 2000. During 2001, we completed the integration of one of our acquisitions for approximately \$0.5 million less than previously estimated. The transaction costs during 2000 were primarily the result of costs associated with the abandoned transactions with Shared Medical Systems Corp., or SMS, and Neoforma.com, Inc., or Neoforma.

Charges in connection with our 2000 restructuring totaled \$1.2 million.

Other income recorded during the year ended December 31, 2000 related to a realized gain on the sale of our investment in SMS of \$4.5 million, which was offset in part by a loss on sale of our investment in equity securities.

Interest income increased \$4.9 million to \$6.0 million for the year ended December 31, 2001, from \$1.1 million for 2000. This increase was due to significantly higher balances of cash and cash equivalents throughout 2001, while interest rates declined. Cash and cash equivalents increased primarily due to the public offering in January 2001, as well as cash generated from operations.

As a result of these factors, we had net income of \$4.4 million for the year ended December 31, 2001, compared to a net loss of \$34.0 million for the year ended December 31, 2000.

2000 Compared to 1999

Total revenues for the year ended December 31, 2000 decreased \$32.8 million, or 13.2%, to \$216.5 million, from \$249.3 million for 1999. Systems and services revenues decreased \$23.2 million, or 10.2%, to \$203.4 million for the year ended December 31, 2000, from \$226.6 million for 1999.

This decrease in total revenues was primarily attributable to the shift toward providing comprehensive bundled solutions, the completion of the implementations under arrangements which were recognized under the percentage-of-completion method and less favorable contracts we inherited as a result of recent acquisitions. In addition, our proposed transactions with SMS and Neoforma, which we have since abandoned, resulted in a significant diversion of management's time and attention, which also adversely affected revenues during early 2000.

Hardware revenues decreased \$9.6 million, or 42.3%, to \$13.1 million for the year ended December 31, 2000 from \$22.7 million for 1999. The decrease was primarily due to decreased volume of hardware sales as a result of less hardware-intensive transactions.

Total cost of revenues increased \$3.4 million, or 2.3%, to \$149.3 million, or 68.9% of total revenues, for the year ended December 31, 2000, from \$145.9 million, or 58.5% of total revenues, for 1999. Increased costs of system and services revenues were partially offset by a decrease in costs of hardware revenues. Costs of systems and services revenues increased as a result of higher royalty related expenses associated with revenue recognized during the period, an increased level of outsourcing revenue and associated expenses, and a charge of \$8.7 million to write-down certain receivables related to contracts assumed in acquisitions. Furthermore, we recorded a charge of \$0.7 million for other costs related to finalizing our acquisition integrations. These amounts were partially offset by decreased amortization of acquired technology in connection with acquisitions completed in prior years and by cost savings associated with the consolidation of our research and development and implementation functions. We also recorded acquisition-related amortization of acquired technology and a network services asset of \$25.3 million and \$18.4 million for 1999 and 2000, respectively.

Sales and marketing expenses increased \$3.8 million, or 10.5%, to \$40.1 million, or 18.5% of total revenues, for the year ended December 31, 2000, from \$36.3 million, or 14.6% of total revenues, for 1999. The increase was primarily due to an increase in commissions as the result of an increase in new contracts in 2000.

Research and development expenses decreased \$6.8 million, or 15.4%, to \$37.4 million, or 17.3% of total revenues, for the year ended December 31, 2000, from \$44.2 million, or 17.7% of total revenues, for 1999. The decrease was due primarily to a write-off of \$2.8 million of capitalized software development costs related to duplicate products with no alternative future use due to the acquisition of MSI in 1999 and the realization of integration synergies. Research and development expenses that were capitalized were \$6.7 million and \$6.4 million for 1999 and 2000, respectively.

General and administrative expenses decreased \$1.0 million, or 8.8%, to \$10.4 million, for the year ended December 31, 2000, from \$11.4 million, for 1999. As a percentage of total revenues, expenses general and administrative increased from 4.6% to 4.8%. The decrease was primarily due to our restructuring plans that were completed in late 1999 and 2000. This was partially offset by a \$0.7 million write-down of receivables during 2000.

Depreciation and amortization decreased \$0.5 million, or 3.2%, to \$14.9 million, for the year ended December 31, 2000, from \$15.4 million, for 1999. As a percentage of total revenues, expenses depreciation and amortization increased from 6.2% to 6.9%. The decrease was primarily the result of certain fixed assets becoming fully depreciated, partially offset by depreciation related to purchases of fixed assets during the 2000. For 1999 and 2000, respectively, we recorded acquisition related amortization of \$7.5 million and \$7.2 million.

Our 1999 restructuring resulted in a charge totaling \$5.1 million related to the closing of duplicate facilities and the termination of employees.

Pooling and transaction costs increased \$0.3 million, or 18.8%, to \$1.9 million for the year ended December 31, 2000, from \$1.6 million for 1999. Pooling and transaction costs incurred during 1999 were related to the poolings of PowerCenter and MSI. The transaction costs during 2000 were primarily the result of costs associated with the abandoned transactions with SMS and Neoforma.

As a result of these factors, net loss increased 259.5% to \$34.0 million for the year ended December 31, 2000, from \$9.4 million for 1999.

Public Offering

During January 2001, we completed a follow-on public offering of 5,750,000 shares of our common stock. Net proceeds from the offering were approximately \$123.2 million.

Liquidity and Capital Resources

During 2001, operations provided \$27.9 million of cash. Investing activities used \$18.5 million of cash, primarily for the purchase of fixed assets and the funding of development costs. Financing activities provided \$138.9 million of cash, as a result of the public offering discussed above, exercise of stock options and the purchase of common stock under our employee stock purchase plan.

As of December 31, 2001, our principal source of liquidity is our balance of \$168.9 million in cash and cash equivalents. In light of our increased balance in cash and cash equivalents, in August 2001 we terminated our revolving credit facility with a commercial bank, which had provided for maximum borrowings of up to \$30.0 million.

Our future capital requirements will depend upon a number of factors, including the rate of growth of our sales and the timing and level of research and development activities. As of December 31, 2001, we did not have any material commitments for capital expenditures. We believe that our available cash and cash equivalents and anticipated cash generated from our future operations will be sufficient to meet our operating requirements at least through 2002.

Contracts and Commitments

The following table provides information related to our contractual cash obligations under various financial and commercial agreements:

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Operating leases	\$40,161	\$10,256	\$17,885	\$8,087	\$3,933

New Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board, or FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140, which replaces SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," addresses issues not previously addressed in SFAS 125. SFAS 140 is effective for transfers and

servicing occurring after March 31, 2001 and, for some provisions, fiscal years ending after December 15, 2000. The adoption of SFAS 140 has had no impact on the our financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives should not be amortized but should be tested for impairment at least annually, and they provide guidelines for new disclosure requirements. These standards outline the criteria for initial recognition and measurement of intangibles, assignment of assets and liabilities including goodwill to reporting units and goodwill impairment testing. Additionally, under the provisions of these standards, the unamortized balance of negative goodwill will be written off and recognized as a change in accounting principle. The provisions of SFAS 141 and 142 apply to all business combinations after June 30, 2001. The provisions of SFAS 142 for existing goodwill and other intangible assets are required to be implemented effective January 1, 2002. We are currently evaluating the impact of SFAS No. 142 on our consolidated financial statements. In accordance with SFAS 142, amortization of goodwill ceased as of January 1, 2002, leaving a recorded balance of \$454,000 of goodwill as of December 31, 2001.

In October of 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. This statement supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." However, it retains the fundamental provisions of SFAS No. 121 for the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Impairment on goodwill is not included in the scope of SFAS No. 144 and will be treated in accordance with the accounting standards established in SFAS No. 142, "Goodwill and Other Intangible Assets." According to SFAS No. 144, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing or discontinued operations. The statement applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, "Reporting the Results of Unusual and Infrequently Occurring Events and Transactions," for the disposal of segments of a business. We adopted this statement on January 1, 2002, and do not expect the statement to have a material effect on us because a significant portion of identified intangible assets will be fully amortized by December 31, 2002.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not currently use derivative financial instruments. We generally buy investments with maturities of 90 days or less. Based upon the nature of our investments, we do not expect any material loss from our investments.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. A hypothetical 10% increase or decrease in interest rates, however, would not have a material adverse effect on our financial condition.

We account for cash equivalents and marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Cash equivalents are short-term highly liquid investments with original maturity dates of three months or less. Cash equivalents are carried at cost, which approximates fair market value.

We do not currently enter into foreign currency hedge transactions. Through December 31, 2001, foreign currency fluctuations have not had a material impact on our financial position or results of operations.

Item 8. *Financial Statements and Supplementary Data*

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All other schedules are omitted as they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and the Stockholders of Eclipsys Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index on page 28 present fairly, in all material respects, the financial position of Eclipsys Corporation and its subsidiaries at December 31, 2000 and December 31, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index on page 28 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Atlanta, Georgia
January 21, 2002

ECLIPSYS CORPORATION

Consolidated Balance Sheets (in thousands, except share data)

	December 31,	
	2000	2001
Assets		
Current Assets:		
Cash and cash equivalents	\$ 20,799	\$ 168,942
Accounts receivable, net of allowance for doubtful accounts of \$5,656 and \$5,572	63,912	66,094
Inventory	1,065	667
Other current assets	<u>6,854</u>	<u>18,424</u>
Total current assets	92,630	254,127
Property and equipment, net	16,801	21,675
Capitalized software development costs, net	11,469	13,831
Acquired technology, net	19,714	3,345
Intangible assets, net	7,831	628
Other assets	<u>7,667</u>	<u>6,888</u>
Total assets	<u>\$ 156,112</u>	<u>\$ 300,494</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Deferred revenue	\$ 45,970	\$ 56,428
Current portion of long-term debt	314	—
Other current liabilities	<u>28,361</u>	<u>22,748</u>
Total current liabilities	74,645	79,176
Deferred revenue	5,258	2,418
Long-term debt	1,177	—
Other long-term liabilities	1,628	699
Commitments and contingencies (See note 9)		
Stockholders' equity:		
Common stock \$.01 par value, 200,000,000 shares authorized; issued and outstanding 37,136,121 and 44,382,413	371	444
Unearned stock compensation	(176)	(32)
Additional paid-in capital	259,903	400,242
Accumulated deficit	(186,459)	(182,051)
Accumulated other comprehensive income	<u>(235)</u>	<u>(402)</u>
Total stockholders' equity	73,404	218,201
Total liabilities and stockholders' equity	<u>\$ 156,112</u>	<u>\$ 300,494</u>

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

ECLIPSYS CORPORATION
Consolidated Statements of Operations
(in thousands, except share and per share data)

	Year Ended December 31,		
	1999	2000	2001
Revenues:			
Systems and services	\$ 226,610	\$ 203,444	\$ 220,489
Hardware	22,717	13,094	16,505
Total Revenues	<u>249,327</u>	<u>216,538</u>	<u>236,994</u>
Costs and expenses:			
Cost of systems and services revenues	127,312	138,909	120,365
Cost of hardware revenues	18,606	10,350	13,571
Sales and marketing	36,316	40,143	42,698
Research and development	44,151	37,382	37,034
General and administrative	11,426	10,380	10,278
Depreciation and amortization	15,415	14,906	15,108
Pooling and transaction costs	1,648	1,900	(472)
Restructuring charge	5,133	1,198	—
Total costs and expenses	<u>260,007</u>	<u>255,168</u>	<u>238,582</u>
Loss from operations	<u>(10,680)</u>	<u>(38,630)</u>	<u>(1,588)</u>
Interest income, net	1,235	1,075	5,996
Other income, net	—	3,596	—
(Loss) income before income taxes	(9,445)	(33,959)	4,408
Provision for income taxes	—	—	—
Net (loss) income	<u>(9,445)</u>	<u>(33,959)</u>	<u>4,408</u>
Net (loss) income per share:			
Basic net (loss) income per common share	\$ (0.27)	\$ (0.92)	\$ 0.10
Diluted net (loss) income per common share	\$ (0.27)	\$ (0.92)	\$ 0.09
Basic weighted average common shares outstanding ...	<u>34,803,934</u>	<u>36,765,975</u>	<u>43,243,512</u>
Diluted weighted average common shares outstanding	<u>34,803,934</u>	<u>36,765,975</u>	<u>46,795,361</u>

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

ECLIPSYS CORPORATION
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	1999	2000	2001
Operating activities:			
Net (loss) income	\$ (9,445)	\$(33,959)	\$ 4,408
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	42,134	36,418	36,472
Provision for bad debts	2,304	3,855	4,305
Write-down of accounts receivable	—	9,400	—
Write-down of investment	—	836	—
Gain on sale of investment	—	(4,462)	—
Write-off of capitalized software development costs	2,790	—	—
Stock compensation expense	2,285	144	144
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(9,967)	(1,061)	(6,487)
Inventory	(143)	(880)	202
Other current assets	(1,411)	6,349	(11,570)
Other assets	(1,521)	(1,825)	(684)
Deferred revenue	(11,863)	(7,911)	7,617
Other current liabilities	(8,732)	(16,184)	(5,613)
Other long-term liabilities	(114)	(1,387)	(928)
Total adjustments	15,762	23,292	23,458
Net cash provided by (used in) operating activities	6,317	(10,667)	27,866
Investing activities:			
Purchase of investments	—	(7,905)	—
Maturities of investments	17,003	—	—
Sale of investments	—	12,432	—
Purchase of property and equipment, net of acquisitions	(8,477)	(8,019)	(11,601)
Capitalized software development costs	(6,747)	(6,407)	(6,876)
Acquisitions	(25,000)	—	—
Proceeds from sale of business	5,000	—	—
Net cash used in investing activities	(18,221)	(9,899)	(18,477)
Financing activities:			
Borrowings	20,000	2,012	—
Payments on borrowings	(20,000)	(521)	(1,491)
Distributions — MSI	(375)	—	—
Exercise of warrants	—	4	—
Sale of common stock	—	—	123,231
Exercises of stock options	6,036	4,330	14,683
Employee stock purchase plan	2,587	1,492	2,498
Net cash provided by financing activities	8,248	7,317	138,921
Effect of exchange rates on cash and cash equivalents	(371)	92	(167)
Net (decrease) increase in cash and cash equivalents	(4,027)	(13,157)	148,143
Cash and cash equivalents — beginning of year	37,983	33,956	20,799
Cash and cash equivalents — end of year	\$ 33,956	\$ 20,799	\$168,942
Cash paid for interest	\$ 124	\$ 388	\$ 51
Cash paid for income taxes	\$ 758	\$ 62	\$ 69

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

ECLIPSYS CORPORATION
Consolidated Statement of Changes in Stockholders' Equity
(in thousands)

	Voting and Non-Voting Common Stock		Common Stock Warrants		Preferred Stock Series A		Additional Paid-in Capital		Unearned Compensation	Accumulated Deficit	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 1998	33,073,883	\$330	395	\$1	20,000	\$1	\$241,975		\$(1,623)	\$(142,680)		\$ 44	\$ 98,442
Stock option exercises	1,610,556	16					6,020						6,036
Employee stock purchase	156,755	2					2,585						2,587
Stock warrant exercise — Transition	156,320	2	(395)				393						—
Stock warrant exercise	962,513	10					(10)						—
Conversion of preferred stock — PCS	241,283	2			(20,000)	(1)	(1)						—
Conversion of convertible debt — PCS	102,515	1					2,141						2,142
Compensation expense recognized							982		1,303	(375)			2,285
Distributions MSI													(375)
Comprehensive income:													—
Net loss										(9,445)	(9,445)	(371)	(9,445)
Foreign currency translation adjustment											(371)		(371)
Other comprehensive income													—
Comprehensive income													—
Balance at December 31, 1999	36,303,825	363	—	—	—	—	254,085		(320)	(152,500)		(327)	101,301
Stock option exercises	495,328	5					2,988						2,993
Employee stock purchase	296,203	3					2,704						2,707
Exercise of warrants	40,765	—					4						4
Compensation expense recognized							122		144	(33,959)	(33,959)	92	266
Net loss											92		(33,959)
Foreign currency translation adjustment													92
Other comprehensive income													—
Comprehensive income													—
Balance at December 31, 2000	37,136,121	371	—	—	—	—	259,903		(176)	(186,459)		(235)	73,404
Stock option exercises	1,317,632	15					14,668						14,683
Employee stock purchase	178,660						2,498						2,498
Public offering	5,750,000	58					123,173		144				123,231
Compensation expense recognized													144
Comprehensive income:													—
Net income										4,408	4,408	(167)	4,408
Foreign currency translation adjustment											(167)		(167)
Other comprehensive income													—
Comprehensive income													—
Balance at December 31, 2001	44,382,413	\$444	—	—	—	—	\$400,242		\$(32)	\$(182,051)		\$(402)	\$218,201

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

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Years Ended December 31, 2001

1. Organization and Description of Business

Eclipsys Corporation ("Eclipsys") and its subsidiaries (collectively, the "Company") is a healthcare information technology company. Eclipsys provides software and services that focus on enabling healthcare organizations (HCOs) to improve and balance their clinical, financial and satisfaction outcomes. Eclipsys solutions assist customers in improving workflow processes and implementing best practices within their organizations. The combination of comprehensive software applications and services offerings enable health-care providers to improve operating effectiveness, reduce costs and improve the quality of care as measured by clinical outcomes. Eclipsys services offerings include outsourcing, remote hosting, networking technologies and other related services.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements include the accounts of Eclipsys and its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Financial Statement Presentation

The Company completed mergers with PowerCenter Systems, Inc. ("PCS") effective February 17, 1999 and MSI Solutions, Inc. and MSI Integrated Services, Inc. (collectively "MSI") effective June 17, 1999. Each of these mergers were accounted for as pooling of interests and, accordingly, the consolidated financial statements have been retroactively restated as if the mergers had occurred as of the beginning of the earliest period presented.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could differ from those estimates. The most significant potential differences relate to the allowance for doubtful accounts, revenues recognized under the percentage-of-completion method and amounts recorded for capitalized software development costs.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost plus accrued interest, which approximates market value.

Revenue Recognition

Revenues are derived from licensing of computer software, software and hardware maintenance, remote hosting and outsourcing, training, implementation assistance, consulting, and the sale of computer hardware. The Company recognizes revenue in accordance with the American Institute of Certified Public Accountants Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2") which requires, among other matters, that there be a signed contract evidencing an arrangement exists, delivery of the software has occurred, the fee is fixed and determinable and collectibility of the fee is probable.

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

Systems and Services Revenue

Multiple Element Arrangements

The Company generally contracts under multiple element arrangements which include software license fees, hardware and services including consulting, implementation and software maintenance for periods of 3 to 7 years. Under these arrangements, where vendor specific objective evidence ("VSOE") exists for all undelivered elements, the Company accounts for the delivered elements in accordance with the "residual method" prescribed by the AICPA Statement of Position ("SOP") 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect of Certain Transactions." For arrangements in which VSOE does not exist for each element, including specified upgrades, revenue is deferred and not recognized until delivery of all of the elements without VSOE has occurred. For software license arrangements that are bundled with services and maintenance where services are considered essential to the functionality of the software and provide for payments upon the achievement of implementation milestones, we recognize revenues using the percentage-of-completion method. Under these arrangements, software license fees and implementation fees are recognized over the implementation period, which has typically ranged from 12 to 24 months.

In 2000, the Company entered into long-term multiple element arrangements in which it provides its customers with comprehensive technology solutions. These arrangements typically include multiple software products (including the right to future products within the suites purchased), implementation and consulting services, maintenance, and, where desired by the customer, outsourcing and remote hosting services. The customer is entitled to these elements throughout the term of the arrangements, which range from seven to ten years. Payments are due monthly over the arrangement term. The Company bundles all fees due under these comprehensive multiple element arrangements and recognizes the revenue ratably over the contract term. Additionally, these contracts may contain provisions by which the Company may earn additional fees based on customer savings or other objectives, as defined in the arrangements. These additional fees are recognized as revenues upon receipt of payment from the customer. In addition, the Company capitalizes related direct costs consisting of third party software costs and direct software implementation costs. These costs are amortized over the term of the arrangement.

Remote hosting and outsourcing services are marketed under long-term agreements that are generally of five to ten years in duration. Revenues under these arrangements are recognized monthly as the work is performed. Revenues related to other support services, such as training, consulting, and other implementation services, are recognized when the services are performed. The Company recognizes revenues from the sale of hardware upon delivery of the equipment to the customer.

Revenue from other software license fees, which are bundled with long-term maintenance agreements (with terms from 3 to 7 years), is recognized on a straight-line basis over the contracted maintenance period. Other software license fee arrangements relate to certain "add-on" modules sold to customers in the installed base. Because the Company does not sell the "add-on" modules or the associated extended term maintenance elements separately, the entire arrangement fee is recognized as revenue over the contracted maintenance period in accordance with paragraph 12 of SOP 97-2.

Services

Remote processing and outsourcing services are marketed under long-term arrangements generally over periods from 5 to 10 years. Revenues from these arrangements are recognized as the services are performed.

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

Software maintenance fees are marketed under annual and multi-year agreements and are recognized as revenue ratably over the contracted maintenance term. The Company's software maintenance arrangements include when and if available upgrades and do not contain specific upgrade rights.

Implementation revenues and other services, including training and consulting are recognized as services are performed for time and material arrangements and using the percentage of completion method based on labor input measures for fixed fee arrangements. The Company sells these services separately and accordingly has sufficient vendor specific objective evidence of the element to recognize revenue.

Hardware Sales and Maintenance Revenue

Hardware sales are generally recognized upon delivery of the equipment to the customer. Hardware maintenance revenues are billed and recognized monthly over the contracted maintenance term.

Unbilled Accounts Receivable

The timing of revenue recognition and contractual billing terms under certain multiple element arrangements may not precisely coincide, resulting in the recording of unbilled accounts receivable or deferred revenue. Customer payments are due under these arrangements in varying amounts upon the achievement of certain contractual milestones throughout the implementation period. Implementation periods generally range from 12 to 24 months. The current portion of unbilled accounts receivable is included in accounts receivable in the accompanying financial statements.

In addition, the Company maintains certain long-term contracts used to finance a portion of certain customer hardware and software fees owed. These arrangements generally provide for payment terms that range from three to five years and carry interest rates that range from 7% to 10%. Such amounts are recorded as non-current unbilled accounts receivables until the customers are billed which is generally on a monthly basis. The non-current portion of amounts due related to these arrangements was \$3.3 million and \$1.8 million as of December 31, 2000 and 2001, respectively, and is included in other assets in the accompanying financial statements. The current portion of amounts due related to these arrangements is included in accounts receivable in the accompanying financial statements. Accounts receivable was composed of the following as of December 31:

	<u>2000</u>	<u>2001</u>
	(in thousands)	
Accounts Receivable:		
Unbilled accounts receivable related to long-term contracts		
(current portion)	\$ 3,783	\$ 3,212
Other unbilled accounts receivable	<u>8,766</u>	<u>6,768</u>
Total unbilled accounts receivable	12,549	9,980
Billed accounts receivable, net	<u>51,363</u>	<u>56,114</u>
Total accounts receivable, net	<u>\$63,912</u>	<u>\$66,094</u>

The Company does not have any obligation to refund any portion of the software or hardware fees and its contracts are non-cancelable.

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

Inventory

Inventory consists of computer equipment, parts and peripherals and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives, which range from two to ten years. Computer equipment is depreciated over two to five years. Office equipment is depreciated over two to seven years. Purchased software for internal use is amortized over three years. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the remaining term of the lease. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Expenditures for repairs and maintenance not considered to substantially lengthen the property and equipment lives are charged to expense as incurred.

Capitalized Software Development Costs

The Company capitalizes a portion of its internal computer software development costs incurred subsequent to establishing technological feasibility, including salaries, benefits, and other directly related costs incurred in connection with programming and testing software products. Capitalization ceases when the products are generally released for sale to customers. Management monitors the net realizable value of all capitalized software development costs to ensure that the investment will be recovered through margins from future sales. Capitalized software development costs were approximately \$6.7 million, \$6.4 million and \$6.9 million for the years ended December 31, 1999, 2000 and 2001, respectively. These costs are amortized over the greater of the ratio that current revenues bear to total and anticipated future revenues for the applicable product or the straight-line method over three years. Amortization of capitalized software development costs, which is included in cost of systems and services revenues, was approximately \$1.2 million, \$2.9 million and \$4.5 million for the years ended December 31, 1999, 2000 and 2001, respectively. Accumulated amortization of capitalized software development costs were \$9.6 million and \$14.1 million as of December 31, 2000 and 2001, respectively.

In June 1999, based on a review of products acquired in conjunction with the MSI merger and other related activities, the Company recorded a write-off of approximately \$2.8 million of capitalized software development costs related to duplicate products that did not have any alternative future use.

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

Acquired Technology and Intangible Assets

The intangible assets from the Company's acquisitions (Note 6), which are amortized to cost of systems and services on a straight-line basis over their estimated useful lives, consisted of the following (in thousands):

	December 31,				Useful Life
	2000		2001		
	Gross	Net	Gross	Net	
Acquired technology	\$ 95,795	\$19,714	\$ 95,795	\$ 3,345	3 – 5 years
Ongoing customer relationships	10,690	2,740	10,690	174	5 years
Network services	5,764	481	5,764	—	3 years
Goodwill	17,834	4,610	17,834	454	5 – 12 years
Other	162	—	—	—	
	<u>\$130,245</u>	<u>\$27,545</u>	<u>\$130,083</u>	<u>\$ 3,973</u>	

Amortization of the acquired technology and network services assets is included in the cost of systems and services revenues.

The carrying values of acquired technology and intangible assets are reviewed if the facts and circumstances suggest that they may be impaired. This review indicates whether assets will be recoverable based on future expected cash flows. Based on its review, the Company does not believe that an impairment of its excess of cost over fair value of net assets acquired has occurred.

In accordance with Statement of Financial Accounting Standards No. 142, amortization of goodwill ceased as of January 1, 2002, leaving a recorded balance of \$454,000. An impairment review of our remaining goodwill balance will be conducted on an annual basis.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, and other current liabilities, approximate fair value.

Long-Term Debt

Prior to August 2001, the Company has maintained a revolving credit facility (the "Revolver") whereunder borrowings were secured by substantially all of the assets of the Company. Under the Revolver, available borrowings were based on accounts receivable and certain other criteria, up to a maximum of \$30 million. In light of its increased cash balance, the Company terminated the Revolver in August 2001.

Income Taxes

The Company accounts for income taxes utilizing the liability method, and deferred income taxes are determined based on the estimated future tax effects of differences between the financial reporting and income tax basis of assets and liabilities and tax carryforwards given the provisions of the enacted tax laws.

Stock-Based Compensation

The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related Interpretations and to elect the disclosure option of Statement of Financial

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

Accounting Standards ("FAS") No. 123, "Accounting for Stock-Based Compensation". Accordingly, compensation cost for stock options is measured as the excess, if any, of the estimated market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

Basic and Diluted Net (Loss) Income Per Share

For all periods presented, basic and diluted net (loss) income per common share is presented in accordance with FAS 128, "Earnings per Share," which provides for the accounting principles used in the calculation of earnings per share. Basic net (loss) income per common share is based on the weighted average number of shares of common stock outstanding during the period. Diluted net income per share reflects the potential dilution from assumed conversion of all dilutive securities such as stock options and warrants. Stock options to acquire 5,494,673, 9,148,878 and 8,006,072 shares of common stock at December 31, 1999, 2000 and 2001, respectively, and warrants to acquire up to 40,829, 5,160 and 5,160 shares of common stock at December 31, 1999, 2000 and 2001 respectively, were the only securities issued which would be included in the diluted earnings per share calculation if dilutive. In 1999 and 2000 the inclusion of stock options and warrants would have been antidilutive due to the net loss reported by the Company. The computations of the basic and diluted per share amounts for the were as follows for the years ended December 31:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Basic Earnings Per Share:			
Net (loss) income (in thousands)	\$ (9,445)	\$ (33,959)	\$ 4,408
Weighted average shares:			
Outstanding	<u>34,803,934</u>	<u>36,765,975</u>	<u>43,243,512</u>
Basic earnings per share	<u>\$ (0.27)</u>	<u>\$ (0.92)</u>	<u>\$ 0.10</u>
Diluted Earnings Per Share:			
Net (loss) income (in thousands)	\$ (9,445)	\$ (33,959)	\$ 4,408
Weighted average shares:			
Outstanding	34,803,934	36,765,975	43,243,512
Effect of dilutive stock options	—	—	3,551,849
Total shares	<u>34,803,934</u>	<u>36,765,975</u>	<u>46,795,361</u>
Diluted earnings per share	<u>\$ (0.27)</u>	<u>\$ (0.92)</u>	<u>\$ 0.09</u>

Concentration of Credit Risk

The Company's customers operate primarily in the healthcare industry. The Company sells its products and services under contracts with varying terms. The accounts receivable amounts are unsecured. Management believes the allowance for doubtful accounts is sufficient to cover credit losses. The Company does not believe that the loss of any one customer would have a material effect on the financial position of the Company.

Foreign Currency Translation

The financial position and results of operations of foreign subsidiaries are measured using the currency of the respective countries as the functional currency. Assets and liabilities are translated at the foreign exchange rate in effect at the balance sheet date, while revenue and expenses for the year are translated at the average

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

exchange rate in effect during the year. Translation gains and losses are not included in determining net income or loss but are accumulated and reported as a separate component of stockholders' equity. The Company has not entered into any hedging contracts during the three-year period ended December 31, 2001.

Comprehensive Income

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" requires that the total changes in equity resulting from revenue, expenses, and gains and losses, including those that do not affect the accumulated deficit, be reported. Accordingly, those amounts, which are comprised solely of foreign currency translation adjustments, are included in other comprehensive income in the consolidated statement of changes in stockholders' equity.

New Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board ("FASB") issued SFAS 140 ("SFAS 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140, which replaces SFAS 125 ("SFAS 125"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," addresses certain issues not previously addressed in SFAS 125. SFAS 140 is effective for transfers and servicing occurring after March 31, 2001 and, for certain provisions, fiscal years ending after December 15, 2000. The adoption of SFAS 140 has had no impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141 ("SFAS 141"), "Business Combinations" and SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives should not be amortized but should be tested for impairment at least annually, and they provide guidelines for new disclosure requirements. These standards outline the criteria for initial recognition and measurement of intangibles, assignment of assets and liabilities including goodwill to reporting units and goodwill impairment testing. Additionally, under the provisions of these standards, the unamortized balance of negative goodwill will be written off and recognized as a change in accounting principle. The provisions of SFAS 141 and 142 apply to all business combinations after June 30, 2001. The provisions of SFAS 142 for existing goodwill and other intangible assets are required to be implemented effective January 1, 2002. The company is currently evaluating the impact of SFAS No. 142 on the consolidated financial statements. In accordance with SFAS 142, amortization of goodwill ceased as of January 1, 2002, leaving a recorded balance of \$454,000 of goodwill as of December 31, 2001.

In October of 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. This statement supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." However, it retains the fundamental provisions of SFAS No. 121 for the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. Impairment on Goodwill is not included in the scope of SFAS No. 144 and will be treated in accordance with the accounting standards established in SFAS No. 142, "Goodwill and Other Intangible Assets." According to SFAS No. 144, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing or discontinued operations. The statement applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, "Reporting the Results of Unusual and Infrequently Occurring Events and Transactions," for the disposal of segments of a business. The Company adopted this statement on January 1,

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

2. Summary of Significant Accounting Policies — (Continued)

2002, and does not expect the statement to have a material effect on the Company as a significant portion of identified intangible assets will be fully amortized by December 31, 2002.

3. Property and Equipment

Property and equipment is summarized as follows (in thousands):

	As of December 31,	
	2000	2001
Computer equipment	\$ 22,292	\$ 18,204
Office equipment and other	6,240	5,824
Purchased software	6,667	6,633
Leasehold improvements	4,723	7,183
	<u>39,922</u>	<u>37,844</u>
Less: Accumulated depreciation and amortization	<u>(23,121)</u>	<u>(16,169)</u>
	<u>\$ 16,801</u>	<u>\$ 21,675</u>

Depreciation and amortization expense of property and equipment totaled approximately \$7.2 million, \$5.7 million and \$6.7 million in 1999, 2000 and 2001, respectively.

4. Stockholders' Equity and Mandatorily Redeemable Preferred Stock

Mandatorily Redeemable Preferred Stock

In connection with its acquisition of Alltel the Company sold 30,000 shares of Series B 8.5% Cumulative Redeemable Preferred Stock ("Series B") and warrants to purchase up to 1,799,715 shares of Non-Voting Common Stock at \$.01 per share for total consideration of \$30.0 million. Additionally, 20,000 shares of the Series C 8.5% Cumulative Redeemable Preferred Stock ("Series C") were issued to Alltel Information Services, Inc. ("AIS") as part of the consideration paid for Alltel. During 1999, 962,513 shares of Common Stock were issued upon the exercise of the warrants issued in conjunction with Series B and Series C.

Series A Convertible Preferred Stock

In March 1996, PCS sold 20,000 shares of its Series A Convertible Preferred Stock ("PCS Series A") for \$2.0 million to outside investors. At the time of the PCS merger, the PCS Series A were converted into 241,183 shares of Common Stock of the Company.

Undesignated Preferred Stock

The Company has available for issuance, 5,000,000 shares of preferred stock. As discussed below under "Shareholder Rights Plan" the Board has designated 100,000 of the 5,000,000 authorized shares of preferred stock as Series A Junior Participating Preferred Stock. The Company has a balance of 4,900,000 authorized shares of undesignated preferred stock (the "Undesignated Preferred"). The liquidation, voting, conversion and other related provisions of the Undesignated Preferred will be determined by the Board of Directors at the time of issuance. Currently, there are no outstanding shares.

Shareholder Rights Plan

On July 26, 2000, the Board of Directors of the Company declared a dividend of one Right for each outstanding share of the Company's Common Stock to stockholders of record at the close of business on

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

4. Stockholders' Equity and Mandatorily Redeemable Preferred Stock — (Continued)

August 9, 2000. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, \$.01 par value per share, at a Purchase Price of \$65.00 in cash, subject to adjustment. The Rights will initially trade together with the Eclipsys Common Stock and will not be exercisable. If a person or group (other than an exempt person) acquires 15% or more of the outstanding shares of Eclipsys Common Stock, the Rights generally will become exercisable and allow the holder (other than the 15% purchaser) to purchase shares of Eclipsys Common Stock at a 50% discount to the market price. The effect will be to discourage acquisitions of 15% or more of Eclipsys Common Stock without negotiations with the Board. The terms of the Rights are set forth in a Rights Agreement dated as of July 26, 2000 (the "Rights Agreement") between the Company and Fleet National Bank, as Rights Agent. The Board has designated 100,000 of the 5,000,000 authorized shares of preferred stock as Series A Junior Participating Preferred Stock.

Secondary Offering of Common Stock

On January 23, 2001, the Company completed a follow-on public offering for 5,750,000 shares of its common stock. Net proceeds from the offering were approximately \$123.2 million.

5. Acquisitions

As discussed in Note 2, on February 17, 1999, the Company completed a merger with PCS for total consideration of approximately \$35.0 million. The Company issued 1,104,000 of its Common Stock for all of the common stock outstanding of PCS. Prior to the transaction, PCS issued convertible notes and warrants to purchase common stock to certain investors. As of December 31, 1998, the balance of convertible notes payable was \$1.9 million. At the time of the PCS merger, the convertible debt was converted into 102,515 shares of Common Stock of the Company. No adjustments were made to the net assets of PCS as a result of the acquisition. The merger was accounted for as a pooling of interests and accordingly, the accompanying consolidated financial statements have been retroactively restated as if the merger occurred as of the earliest period presented. PCS provides enterprise resource planning software throughout the healthcare industry.

Effective March 31, 1999, the Company acquired the common stock of Intelus Corporation ("Intelus") and Med Data Systems, Inc. ("Med Data"), both wholly owned subsidiaries of Sungard Data Systems, Inc. for total consideration of \$25.0 million in cash. The acquired entities both provide document imaging technology and workflow solutions to entities throughout the healthcare industry. The acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated based on the fair value of the net assets acquired.

Effective July 1, 1999, the Company sold Med Data for total consideration of \$5.0 million in cash. The Company reduced acquired technology originally recorded in the purchase during the quarter ended September 30, 1999 by \$4.4 million, which represents the difference between the sales price and the net

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

5. Acquisitions — (Continued)

tangible assets sold. The final purchase price is composed of and allocated as follows after adjustment for the sale of Med Data (in thousands):

Cash.....	\$25,000
Liabilities assumed.....	<u>6,406</u>
	31,406
Current assets.....	8,630
Fixed assets.....	<u>778</u>
	9,408
Identifiable intangible assets (acquired technology)	<u>\$21,998</u>

Unaudited pro forma results of operations as if the aforementioned acquisitions had occurred on January 1, 1999 is as follows (in thousands except per share data):

	Year Ended December 31, 1999
Revenues.....	\$252,818
Net loss.....	(9,884)
Basic and diluted net loss per share	\$ (.28)

As discussed in Note 2, on June 17, 1999, the Company completed a merger with MSI for total consideration of approximately \$53.6 million. The Company issued 2,375,000 of its common stock for all of the common stock outstanding of MSI. No adjustments were made to the net assets of MSI as a result of the acquisition. The merger was accounted for as a pooling of interests and accordingly, the accompanying consolidated financial statements have been retroactively restated as if the merger occurred as of the earliest period presented. MSI provides web enabling and integration software. In connection with the pooling of MSI, the Company recorded a stock compensation charge of \$1.0 million related to certain MSI options that were required to be fully vested at the merger date. Prior to the merger with Eclipsys, MSI was a Subchapter S Corporation. During 1999, MSI paid distributions to stockholders' of \$375,000. In connection with the Eclipsys merger, the Subchapter S election was terminated.

During July 1999, the Company invested in HEALTHvision, Inc., a Dallas based, privately held internet healthcare company, in conjunction with VHA, Inc. and investment entities affiliated with General Atlantic Partners, LLC. The Company purchased 3,400,000 shares of common stock for \$34,000, which represented 34% of the outstanding common stock on an if-converted basis of HEALTHvision, Inc. As of December 31, 2001 these shares represented 28% of the common stock of HEALTHvision, Inc. on an if-converted basis. The Company accounts for the investment using the equity method of accounting. In connection with the formation of HEALTHvision, Inc., certain employees of Eclipsys became employees of HEALTHvision, Inc. and as a result the Company recorded a stock compensation charge of \$982,000 due to accelerated vesting of those employees' stock options.

On March 30, 2000, the Company entered into a definitive merger agreement to be acquired by Neoforma.com, Inc. ("Neoforma") of Santa Clara, California. Neoforma is a provider of business-to-business e-commerce services in the medical products, supplies and equipment industry. During the quarter ended June 30, 2000, the Company and Neoforma agreed to terminate the Merger Agreement between them without the payment of a termination fee. Transaction costs incurred in connection with the proposed merger were approximately \$1.9 million.

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

6. Other Current Liabilities

Other current liabilities consisted of the following (in thousands):

	December 31,	
	2000	2001
Accounts payable	\$ 2,660	\$ 1,486
Accrued compensation and incentives	11,952	12,219
Customer deposits	990	511
Accrued royalties	2,695	2,679
Other	10,064	5,853
	<u>\$28,361</u>	<u>\$22,748</u>

During the quarter ended June 30, 1999, the Company initiated a restructuring of its operations. This restructuring was completed during the quarter ended September 30, 1999 and resulted in a charge totaling \$5.1 million. The charge principally related to the closing of duplicate facilities and the termination of certain employees. As of December 31, 2000 and 2001, the liability related to the restructuring in 1999 totaled \$764,000 and \$0, respectively. During 2000, the Company initiated and completed another restructuring of its operations. This restructuring rationalized employee headcount following the Company's completion of the integration of its acquisitions. Additionally, the Company consolidated its research and development and implementation functions. Charges in connection with this restructuring in 2000 totaled \$1.2 million. As of December 31, 2001, there were no significant liabilities remaining related to either restructuring.

7. Income Taxes

A reconciliation of the effect of applying the federal statutory rate and the effective income tax rate on the Company's income tax provision is as follows (in thousands):

	Year Ended December 31,		
	1999	2000	2001
Statutory federal income tax rate	\$(3,212)	\$(11,546)	\$ 1,499
State income taxes	(374)	(1,345)	175
Non-deductible deal costs	650	—	—
Non-deductible amortization	2,610	2,640	1,943
Other	326	301	344
Valuation allowance, includes effect of acquisitions	—	9,950	(3,961)
Income tax provision	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

7. Income Taxes — (Continued)

The significant components of the Company's net deferred tax assets/(liabilities) were as follows (in thousands):

	As of December 31,	
	2000	2001
Deferred tax assets:		
Intangible assets	\$ 38,071	\$ 40,823
Deferred revenue	328	—
Allowance for doubtful accounts	6,579	3,241
Accrued expenses	1,534	203
Depreciation	794	—
Other	600	1,719
Net operating loss carryforwards	<u>46,895</u>	<u>48,419</u>
	<u>\$ 94,801</u>	<u>\$ 94,405</u>
Deferred tax liabilities:		
Unbilled Receivables	\$ (7,630)	\$ (5,647)
Depreciation	—	(500)
Capitalization of software development costs	<u>(4,354)</u>	<u>(5,250)</u>
Net deferred tax asset	<u>82,817</u>	<u>83,008</u>
Valuation allowance	<u>(82,817)</u>	<u>(83,008)</u>
	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2001, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$122.7 million. The carryforwards expire in varying amounts through 2021. Of this amount, \$39.3 million related to stock option tax deductions which will be tax-effected and the benefit credited as additional paid-in-capital when realized. Additionally, the Company has Canadian net operating loss carryovers of approximately \$4.9 million that expire in varying amounts through 2006.

Under the Tax Reform Act of 1986, the amounts of, and the benefits from, net operating loss carryforwards may be impaired or limited in certain circumstances. The Company experienced ownership changes as defined under Section 382 of the Internal Revenue Code in January 1997 and December 1998. As a result of the ownership changes, net operating loss carry-forwards of approximately \$1.5 million at January, 1997 and \$55.0 million at December 1998, which were incurred prior to the date of change, are subject to annual limitations on their future use. As of December 31, 2001, a valuation allowance has been established against the deferred tax assets that management does not believe are more likely than not to be realized.

8. Employee Benefit Plans

1996 Stock Option Plan

In April 1996, the Board of Directors of the Company (the "Board") adopted the 1996 Stock Plan (the "1996 Stock Plan"). The 1996 Stock Plan, as amended, provided for grants of stock options, awards of Company stock free of any restrictions and opportunities to make direct purchases of restricted stock of the Company. The 1996 Stock Plan allowed for the issuance of options or other awards to purchase up to 2,500,000 shares of Common Stock. Pursuant to the terms of the 1996 Stock Plan, a committee of the Board

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

8. Employee Benefit Plans — (Continued)

was authorized to grant awards to employees and non-employees and establish vesting terms. The options expire ten years from the date of grant. No further options or awards may be granted under the 1996 Stock Plan.

1998 Stock Incentive Plan

In January 1998, the Board adopted the 1998 Stock Incentive Plan (the "Incentive Plan"). The Incentive Plan provided for the granting of stock options, stock appreciation rights, restricted stock awards or unrestricted stock awards. No additional options or other awards may be granted under the Incentive Plan.

1999 Stock Incentive Plan

In February 1999, the Board adopted the 1999 Stock Incentive Plan (the "1999 Plan"). The 1999 Plan provided for the granting of stock options, restricted stock, or other stock-based awards. No additional options or other awards may be granted under the 1999 Plan.

2000 Stock Incentive Plan

On May 22, 2000, the Board adopted the 2000 Stock Incentive Plan (the "2000 Plan"). The 2000 Plan provides for the granting of stock options, restricted stock, or other stock-based awards. Under the provisions of the 2000 Plan, no options or other awards may be granted after May 2010. The 2000 Plan increases the number of shares of common stock reserved under the 2000 Plan, together with the 1999 Plan, the Incentive Plan, the 1996 Plan and the 1998 Employee Stock Purchase Plan, to 12,000,000.

	1999		2000		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of the year ..	4,344,958	\$10.69	5,494,673	\$16.98	9,148,878	\$12.87
Granted	3,141,212	19.62	4,977,159	8.46	1,196,284	14.70
Exercised	(1,610,556)	3.75	(510,253)	6.62	(1,342,619)	10.96
Forfeited	(380,941)	22.53	(812,701)	17.71	(996,471)	22.89
Outstanding at end of year	<u>5,494,673</u>	16.98	<u>9,148,878</u>	12.87	<u>8,006,072</u>	12.22
Exercisable at end of the year	<u>1,115,891</u>		<u>2,319,237</u>		<u>3,425,434</u>	

	1999		2000		2001	
	Weighted Average Exercise Price	Weighted Fair Market Value	Weighted Average Exercise Price	Weighted Fair Market Value	Weighted Average Exercise Price	Weighted Fair Market Value
Option Granted During the Year						
Option price > Fair market value	—		—		—	
Option price = Fair market value	\$19.62		\$8.46		\$14.70	
Option price < Fair market value	—		—		—	
Weighted Fair Market Value Options ...		\$18.51		\$7.98		\$10.70

The Company has adopted the disclosure only provision of FAS 123. Had compensation cost for the Company's stock option grants described above been determined based on the fair value at the grant date for awards in 1999, 2000 and 2001 consistent with the provisions of FAS 123, the Company's net loss and loss per

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

8. Employee Benefit Plans — (Continued)

share would have been increased to the pro forma amounts indicated below (in thousands, except per share data):

	Year Ended December 31,		
	1999	2000	2001
Net (loss) income:			
As reported	\$ (9,445)	\$(33,959)	\$4,408
Pro forma	(23,788)	(45,032)	1,252
Basic net (loss) income per share:			
As reported	\$ (0.27)	\$ (0.92)	\$ 0.10
Pro forma	\$ (0.68)	\$ (1.22)	\$ 0.03
Diluted net (loss) income per share:			
As reported	\$ (0.27)	\$ (0.92)	\$ 0.09
Pro forma	\$ (0.68)	\$ (1.22)	\$ 0.03

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1999, 2000 and 2001: dividend yield of 0% for all years, risk-free interest rate of 6.34% for 1999, 5.75% for 2000 and 4.27% for 2001, expected life of 7.44, 9.88 and 6.81 years based on the plan and volatility of 133% for 1999, 113% for 2000, and 78% for 2001.

The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/01	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at 12/31/01	Weighted Average Exercise Price
\$ 0.10-\$ 6.50	1,177,736	6.99	\$ 6.01	624,027	\$ 5.62
\$ 6.51-\$ 7.50	44,614	6.00	7.35	30,861	7.39
\$ 7.51-\$ 8.50	2,775,235	8.53	8.25	1,023,257	8.25
\$ 8.51-\$13.20	1,107,202	8.80	11.60	243,028	9.76
\$13.21-\$15.50	1,078,953	7.78	14.58	611,251	14.70
\$15.51-\$20.15	965,735	8.31	18.43	309,144	19.43
\$20.16-\$23.50	745,826	7.42	22.83	493,046	23.10
\$23.51-\$26.00	22,049	5.11	25.71	19,845	25.71
\$26.01-\$36.00	39,374	5.58	35.83	31,497	35.83
\$36.01-\$43.57	49,348	5.88	43.57	39,478	43.57

In connection with the Transition merger, options held by employees of Transition were converted into options to purchase 1,792,854 shares of Common Stock based on the .525 conversion ratio. All option disclosures reflect the impact of Transition options after retroactive restatement for the impact of the Transition merger. As of December 31, 1999, 2000 and 2001, respectively, there were 327,626, 181,986 and 160,624 options outstanding related to Transition's stock options plans.

In connection with the PCS and MSI mergers, options held by employees were converted into outstanding options of the Company. As of December 31, 1999, 2000 and 2001, respectively, there were 11,764, 10,859 and 10,859 options outstanding related to PCS's stock option plan. As of December 31, 1999,

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

8. Employee Benefit Plans — (Continued)

2000 and 2001, respectively, there were 72,435, 47,676 and 26,557 options outstanding related to MSI's stock option plan.

Employee Savings Plan

During 1997, the Company established a Savings Plan (the "Plan") pursuant to Section 401(k) of the Internal Revenue Code (the "Code"), whereby employees may contribute a percentage of their compensation, not to exceed the maximum amount allowable under the Code. At the discretion of the Board, the Company may elect to make matching contributions, as defined in the Plan. For the years ended December 31, 1999, 2000 and 2001, the Board authorized matching contributions totaling \$0, \$801,000 and \$532,000, respectively.

1998 Employee Stock Purchase Plan

Under the Company's 1998 Employee Stock Purchase Plan (the "Purchase Plan") (implemented in April 1998), employees of the Company, including directors of the Company who are employees are eligible to participate in quarterly plan offerings in which payroll deductions may be used to purchase shares of Common Stock. The purchase price of such shares is the lower of 85% of the fair market value of the Common Stock on the day the offering commences and 85% of the fair market value of the Common Stock on the day the offering terminates.

9. Commitments and Contingencies

Noncancelable Operating Leases

The Company leases its office space and certain equipment under noncancelable operating leases. Rental expense under operating leases was approximately \$11.6 million, \$10.6 million and \$11.4 million for the years ended December 31, 1999, 2000 and 2001 respectively. Future minimum rental payments for noncancelable operating leases as of December 31, 2001 are as follows (in thousands):

<u>Year Ending December 31,</u>	
2002	\$10,256
2003	9,946
2004	7,939
2005	4,655
2006	3,432
Thereafter	<u>3,933</u>
	<u><u>\$40,161</u></u>

Litigation

The Company is involved in litigation incidental to its business from time to time. In the opinion of management, after consultation with legal counsel, the ultimate outcome of such litigation will not have a material adverse effect on the Company's financial position or results of operations or cash flows.

10. Related Party Transactions

Eclipsys has a policy that all transactions between it and its executive officers, directors and affiliates must be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

10. Related Party Transactions — (Continued)

Additionally, these transactions must be approved by a majority of the members of the Board of Directors and by a majority of the disinterested members of the Board of Directors.

The Company leases office space from a former stockholder of SDK. During the years ended December 31, 1999, 2000 and 2001, the Company paid \$330,000, \$849,000 and \$692,000, respectively, under this lease. The lease, which was amended to increase the space at the end of 1999, is noncancelable and expires in 2009.

Our Chairman of the Board and Chief Executive Officer of the Company owns a company which leases an aircraft to a charter company. The charter company provides aircraft charter services to Eclipsys as well other outside parties. Our Chairman has no ownership or other interest in the charter company. For flights chartered by the Company, we paid the charter company \$530,000, \$412,000 and \$775,000, in 1999, 2000 and 2001, respectively. The Chairman's company received \$339,000, \$298,000 and \$481,000, during 1999, 2000 and 2001, respectively, for these transactions.

As discussed in Note 5, during July 1999, we invested in HEALTHvision, Inc. ("HEALTHvision,") a Dallas-based, privately held internet healthcare company, in conjunction with VHA, Inc. and investment entities affiliated with General Atlantic Partners, LLC. HEALTHvision provides Internet solutions to hospital organizations to assist them in improving patient care in the local communities they serve. We purchased 3,400,000 shares of common stock for \$34,000, which at the time represented 34% of the outstanding common stock on an if converted basis. As of December 31, 2001 our shares represented 28% of the common stock of HEALTHvision on an if converted basis. We account for our investment in HEALTHvision using the equity method of accounting. Due to losses recognized under the equity method, the recorded balance of the investment in HEALTHvision was \$0 as of December 31, 2001. In connection with our relationship with HEALTHvision, we have entered into a joint marketing arrangement under which both organizations agreed to jointly market products and services to their customers. Under this agreement, we paid HEALTHvision \$1,133,000 during 2001. During 2001, the Company earned revenues from HEALTHvision of \$2,553,000 and had accounts receivable due from HEALTHvision of \$1,049,000 at December 31, 2001. For the year ended December 31, 2001, HEALTHvision, Inc had total revenues of approximately \$17.6 million (unaudited) and a net loss of approximately \$9.9 million (unaudited). Additionally, HEALTHvision had total assets of approximately \$13.6 million (unaudited) as of December 31, 2001. Our Chairman and CEO serves as co-chairman of HEALTHvision.

The Company has a license agreement with Partners HealthCare System, Inc. ("Partners"). Under the terms of this license, the Company may develop, commercialize, distribute and support certain technology and license it, as well as sell related services, to other healthcare providers and hospitals throughout the world (with the exception of the Boston, Massachusetts metropolitan area). Prior to the Company's initial public offering, no sales of products incorporating the licensed technology were made and, consequently, no royalties were paid by the Company pursuant to the license with Partners. The royalty arrangement under the license terminated upon the Company's initial public offering. After the Company's initial public offering, the Company sold products incorporating the licensed technology. The Company is obligated to offer to Partners and certain of its affiliates a license for internal use, granted on most favored customer terms, to all new software applications developed by the Company, whether or not derived from the licensed technology, and major architectural changes to the licensed technology. Partners and certain of its affiliates are also entitled to receive internal use licenses, also granted on most favored customer terms, for any changes to any module or application included in the licensed technology requiring at least one person-year of technical effort.

Additionally, as part of the agreement, the Company has provided development services to Partners related to commercializing the intellectual property; fees paid to the Company for these development services

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
For the Three Years Ended December 31, 2001

10. Related Party Transactions — (Continued)

totaled \$976,000, \$274,000 and \$0 for the years ended December 31, 1999, 2000 and 2001 respectively, and are included as a reduction in research and development expenses in the accompanying consolidated statements of operations.

In 2001, Partners entered into a contract with the Company for the license of a new software application and related professional services. This new software application consisted of an upgrade to an existing software application that Partners had licensed from Transition Systems, Inc, an entity that was acquired by the Company in December 1998. Under this new contract, Partners paid the Company the sum of \$953,921 in 2001. As of December 31, 2001, Partners owed the Company the sum of \$203,515 related to this new contract. Jay Pieper, a director of the Company, is Vice President of Corporate Development and Treasury Affairs for Partners. Partners was not affiliated with the Company at the time of the negotiation of the Partners license from Transition Systems, Inc.

11. Investment Write-Down

In April 1998, the Company made a strategic investment in Simone Central Holdings, Inc. ("Simione") a publicly traded company, purchasing 420,000 shares of restricted common stock from certain stockholders of Simone for \$5.6 million. At the time of the transaction, the common stock represented 4.9% of Simone's outstanding common stock. The Company accounted for its investment in these shares using the cost method.

Concurrent with the investment, the Company and Simone entered into a remarketing agreement pursuant to which the Company had certain rights to distribute Simone software products.

At December 31, 1998, the Company determined that an other than temporary impairment of its investment occurred. Accordingly, the investment was written down to its estimated fair value of approximately \$800,000 and the Company recorded a charge of \$4.8 million in the accompanying statement of operations. During the first quarter of 2000, the Company recorded a charge of approximately \$800,000 to write down the remaining balance of its investment. In late 2000, the Company sold its investment for approximately \$226,000. The subsequent recovery was recorded to partially offset the previously recorded write downs.

During the quarter ended March 31, 2000, the Company recorded a gain on its investment in Shared Medical Systems Corp. ("SMS") of approximately \$4.5 million. The investment was made in connection with a proposed merger with SMS that was not consummated. In connection with the proposed merger, the Company recorded transaction costs of approximately \$50,000.

ECLIPSYS CORPORATION
SCHEDULE II-VALUATION OF QUALIFYING ACCOUNTS
For Each of the Three Years in the Period Ended December 31, 2001

	Balance at Beginning of Period	Additions	Acquired Reserves	Write-offs	Balance at End of Period
December 31, 1999					
Allowance for doubtful accounts	\$ 3,724	\$ 2,304	\$81	\$ (2,417)	\$ 3,692
Valuation allowance for deferred tax asset.....	69,082	1,744			70,826
December 31, 2000					
Allowance for doubtful accounts	3,692	13,255		(11,291)	5,656
Valuation allowance for deferred tax asset.....	70,826	11,991			82,817
December 31, 2001					
Allowance for doubtful accounts	5,656	4,305		(4,389)	5,572
Valuation allowance for deferred tax asset.....	82,817	191			83,008

Quarterly Results (Unaudited)

The following table presents quarterly statement of operations data for each of the eight quarters in the period ended December 31, 2001. The statement of operations data for the quarters are unaudited, and in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial data for such periods. Additionally, the statement of operations data is derived from, and are qualified by reference to, Eclipsys' audited financial statements, which appear elsewhere in this document.

ECLIPSYS CORPORATION
For the Year Ended December 31, 2000
(In thousands, except per share data)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
Revenues	\$64,690	\$ 47,129	\$ 50,613	\$54,105	\$216,538
Gross profit margin	29,137	9,786	7,739	20,617	67,279
Net income (loss)	4,989	(15,231)	(18,288)	(5,430)	(33,959)
Basic net income (loss) per share	\$ 0.14	\$ (0.42)	\$ (0.50)	\$ (0.15)	\$ (0.92)
Diluted net income (loss) per share	\$ 0.13	\$ (0.42)	\$ (0.50)	\$ (0.15)	\$ (0.92)

ECLIPSYS CORPORATION
For the Year Ended December 31, 2001
(In thousands, except per share data)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
Revenues	\$54,671	\$59,200	\$62,442	\$60,681	\$236,994
Gross profit margin	21,575	25,901	28,826	26,756	103,058
Net (loss) income	(3,176)	1,491	3,965	2,128	4,408
Basic net (loss) income per share	\$ (0.08)	\$ 0.03	\$ 0.09	\$ 0.05	\$ 0.10
Diluted net (loss) income per share	\$ (0.08)	\$ 0.03	\$ 0.08	\$ 0.05	\$ 0.09

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Part III

Certain information required by Part III of Form 10-K will be contained in the Company's definitive Proxy Statement to be used in connection with the annual meeting of stockholders for the year 2002, and is incorporated herein by reference to this Form 10-K Annual Report:

Item 10. *Directors and Executive Officers of the Registrant*

Information regarding directors will be set forth in the proxy statement for the annual meeting of stockholders for the year 2002 and is incorporated herein by reference. Information regarding our executive officers is set forth under the caption "Executive Officers of the Registrant" appearing at the end of Part I, above.

Item 11. *Executive Compensation*

Information regarding executive compensation will be set forth in the proxy statement for the annual meeting of stockholders for the year 2002 and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Information regarding security ownership of certain beneficial owners and management will be set forth in the proxy statement for the annual meeting of stockholders for the year 2002 and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

Information regarding certain relationships and related transactions will be set forth in the proxy statement for the annual meeting of stockholders for the year 2002 and is incorporated herein by reference.

Part IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements included in Item 8 of this report on Form 10-K
2. Financial Statement Schedules included in Item 8 of this report on Form 10-K
3. The following exhibits are included in this report:
 - 2.1* Agreement and Plan of Merger dated as of October 29, 1998 by and among the Registrant, Exercise Acquisition Corp. and Transition Systems, Inc.
 - 2.2** Agreement of Merger among Alltel Healthcare Information Services, Inc., Alltel Information Services, Inc., Eclipsys Corporation and Eclipsys Solutions Corp. dated as of January 24, 1997
 - 2.3** Amended and Restated Stock Purchase Agreement among Eclipsys Corporation, SDK Medical Computer Services Corporation and the Selling Stockholders listed therein dated June 26, 1997
 - 2.4** Asset Purchase Agreement by and among Motorola, Inc. Eclipsys Corporation and Emtex Healthcare Corporation dated January 30, 1998
 - 2.5**** Agreement and Plan of Merger dated as of February 5, 1999, by and among Eclipsys PCS and Sub
 - 2.6**** Escrow Agreement dated as of February 17, 1999, by and among Eclipsys, Sub, PCS and the PCS Stockholders and Noteholders
 - 2.7***** Stock Purchase and Sale Agreement dated as of March 6, 1999 by and among Sun Gard Data Systems Inc., Sun Gard Investment Ventures, Inc., Med Data Systems, Inc., Intelus Corporation, and Eclipsys Corporation and Eclipsys Solutions Corp.
 - 2.8***** Agreement and Plan of Merger dated as of June 17, 1999, by and among Eclipsys Corporation, Eclipsys Merger Corp., MSI Solutions, Inc., MSI Integrated Services, Inc., Anna L. Bean, Michael R. Cote, Robert J. Feldman and the 1997 Feldman Family Trust
 - 2.9***** Asset Purchase Agreement by and among Quadramed Corporation, Eclipsys Corporation and Med Data Systems, Inc. dated July 1, 1999
 - 3.1*** Third Amended and Restated Certificate of Incorporation of the Registrant
 - 3.2** Third Amended and Restated Bylaws of the Registrant
 - 3.3***** Certificate of Designation of Series A Junior Participating Preferred
 - 4.1** Specimen certificate for shares of Common Stock
 - 10.1** Second Amended and Restated Registration Rights Agreement
 - 10.2** Second Amended and Restated Stockholders Agreement
 - 10.5**† Information Systems Technology License Agreement, dated as of May 3, 1996, by and among Partners Healthcare System, Inc. and Integrated Healthcare Solutions, Inc.
 - 10.6** Preferred Stock Purchase Agreement by and among Eclipsys Corporation, General Atlantic Partners 47, L.P. and GAP Coinvestment Partners, L.P. dated February 4, 1998
 - 10.7** 1996 Stock Plan
 - 10.8** 1998 Stock Incentive Plan, as amended
 - 10.9***** Amended and Restated 1998 Employee Stock Purchase Plan, as amended

10.13**	Settlement of Claims Agreement, dated as of March 13, 1998, between ALLTEL Information Services, Inc. and Eclipsys Corporation
10.14*****	1999 Stock Incentive Plan, as amended
10.15*****	2000 Stock Incentive Plan
21	Subsidiaries of the Registrant
23	Consent of PricewaterhouseCoopers LLP

† confidential treatment granted on August 6, 1998 in connection with the Registrants IPO

* Incorporated by reference to the Joint Proxy Statement/ Prospectus included in the Registrant's Registration Statement on Form S-4 (File No. 333-68353)

** Incorporated by reference to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-50781)

*** Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 000-24539)

**** Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 3, 1999 (File No. 000-24539)

***** Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (File No. 000-24539)

***** Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 000-24539)

***** Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (File No. 000-24539)

***** Incorporated by reference to the Registrant's Current Report on Form 8-K dated August 8, 2000 (File No. 000-24539)

***** Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File No. 000-24539)

(b) Reports on Form 8-K.

None.

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ HARVEY J. WILSON</u> Harvey J. Wilson	Chief Executive Officer, (Principal Executive Officer), Director	March 25, 2002
<u>/s/ ROBERT J. COLLETTI</u> Robert J. Colletti	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 25, 2002
<u>/s/ STEVEN A. DENNING</u> Steven A. Denning	Director	March 25, 2002
<u>/s/ G. FRED DIBONA</u> G. Fred Dibona	Director	March 25, 2002
<u>/s/ EUGENE V. FIFE</u> Eugene V. Fife	Director	March 25, 2002
<u>/s/ BRADEN KELLY</u> Braden Kelly	Director	March 25, 2002
<u>/s/ JAY B. PIEPER</u> Jay B. Pieper	Director	March 25, 2002

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*"Since teaming with
Eclipsys for our outsourcing
needs, I now can focus on
strategic decisions and not
worry about some of the
things that previously kept
me awake at night."*

*Scott Joslyn
Senior Vice President & CIO
Memorial Health Services
Long Beach, CA*

*"We needed an advanced
yet user-friendly IT system.
Eclipsys provides both."*

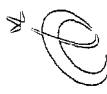
*James Bonds
CFO
Phoenix Children's Hospital
Phoenix, AZ*

*"We were looking for
a partner...one which
best shared our values.
Eclipsys is that partner
for Genesys."*

*David Holland
Vice President & CIO
Genesys Health System
Grand Blanc, MI*

*"Eclipsys wireless
technologies have
allowed nurses to spend
more time with patients
and thus increase
patient satisfaction."*

*Pat Judd, RN, MBA
Director of Nursing
West Jefferson Medical Center
Marrero, LA*

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