2003

ECLIPSYS ANNUAL REPORT

VALUE at your fingertips

ECLIPSYS®

The Outcomes Company®

From our customers

'I tell every CEO in the country that they need a system like this (Sunrise Clinical Manager). And when they tell me that they can't afford one, I tell them they can't afford *not* to have one.'

Elaine Ullian
President & CEO
Boston Medical Center
Boston, MA

'The customizable workflows and robust evidence-based content demonstrates that Eclipsys understands the clinical process, making SunriseXA a clear choice for us.'

Pete Dysert, MD
Chief Medical Information Officer
Baylor Health Care System
Chief of Pathology
Baylor University Medical Center
Dallas, TX

'Eclipsys provides a solid solution that allows us to concentrate on our business issues rather than systems issues. We were able to reduce our A/R days to less than 50.'

David Wurcel
Vice President for Corporate Business Services
Yale New Haven Health System
New Haven, CT

'The high degree of satisfaction expressed by Eclipsys' large, long-term outsourcing customer base was a critical factor in winning our trust. Equally impressive was the experience and expertise demonstrated by Eclipsys' outsourcing personnel.'

Peggy A. Chulack
Chief Administrative Officer
Presbyterian Intercommunity Hospital
Whittier, CA

'Having Eclipsys CPOE has improved both our ability to recruit and retain qualified physicians.'

Kenneth Fath, MD
Medical Director, Performance Input
Alamance Regional Medical Center
Burlington, NC

'We look to Eclipsys as a true partner in our effort to transform workflow across the health system. Through this initiative, we aim to set the standard for excellence and ensure that we are providing the best service possible to those who entrust us with their care.'

Michael A. Berman, MD
Executive Vice President & Hospital Director
NewYork-Presbyterian Hospital
New York, NY

To our shareholders

THIS IS A GREAT TIME to be a healthcare information technology (HIT) company. The interest of both healthcare providers and the public in advanced clinical systems to combat medical errors and rising healthcare costs has never been greater. The dialogue and debate for increased use of healthcare information technology in the industry is becoming an increasingly frequent discussion in the media and many of the most prominent publications.

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A recent survey conducted by the Healthcare Financial Management Association reports that hospitals plan to boost capital spending by 14% annually over the next five years.[1] Approximately 64% of healthcare financial executives surveyed said they plan to purchase computerized physician order entry (CPOE) systems, while 61.3% indicated that they plan to buy a major information technology system.[2]

This increased interest and the anticipated increases in HIT spending bode well for Eclipsys Corporation®. Eclipsys is a leading provider of advanced clinical, financial and information management software solutions and business transformation services. We provide comprehensive solutions that meet a healthcare provider's information technology needs, regardless of size or scope. We believe our solutions address most of a healthcare organization's major workflows. They get the *right* information to the *right* person, at the *right* time and place, and on the *right* device to help ensure that the *right* decisions are made for high-quality, cost-effective care.

Eclipsys has the number one ranked core clinical system in the country, measured by many independent research organizations such as KLAS Enterprises, Five Rights Consulting and Frost & Sullivan.

KLAS Enterprises, a firm specializing in monitoring and reporting the performance of HIT vendors and products, for the third straight year reported that our advanced clinical system led its competitors. KLAS ranked our clinical solution first in the Acute Care CDR (clinical data repository), Orders and Charting market segment in its Top 20 2003 Year-End Best in KLAS Awards.[3] Virtually all respondents in the KLAS Top 20 2003 Mid-Year Report Card said they would purchase the solution again, demonstrating our capacity to meet our customers' needs.[4]

Based on calculations from the 2004 KLAS CPOE Digest, a total of 31% of live inpatient CPOE organizations surveyed use Eclipsys clinical solutions.[5] Frost & Sullivan reported statistics in 2003 showing that, at 17.25%, Eclipsys' Sunrise™ Clinical Manager has the largest market share by revenue for full CPOE solutions in the U.S. urban hospital market.[6]

Also, an analysis of a 2003 report on CPOE by physician-led independent consulting firm Five Rights Consulting showed that our core clinical offering is a leading solution. For the third consecutive year, it is ranked as one of the top CPOE choices and is live in more healthcare organizations than any other CPOE system.[7]

Further, we have high physician adoption of our clinical solutions. Eclipsys has 1,500 healthcare facilities using one or more of our solutions, including many of the most prestigious hospitals in North America. We intend to maintain this leadership position and take advantage of an expanding market.

2003 performance

Eclipsys made tremendous progress in getting our vision and message to the market in 2003. Eclipsys' name recognition has substantially improved. As noted previously, recognition of our products by independent third parties has remained strong and, more importantly, our execution to procure new business, new customers and gains in market share was also strong.

Sales in 2003 were strong across all major areas, including our advanced workflow solutions for Ambulatory, Knowledge-Based Transcription, Medication Management (Pharmacy), Emergency Department, Surgery, Knowledge-Based Diagnostic Imaging, Nursing, Clinical Documentation, Decision Support, Revenue Management, our SunClinical Data Institute and, generally, our flagship clinical system, SunriseXA®. Growth continued in hardware and networking sales, remote-hosting services, professional services, consulting services and outsourcing as compared to the previous year.

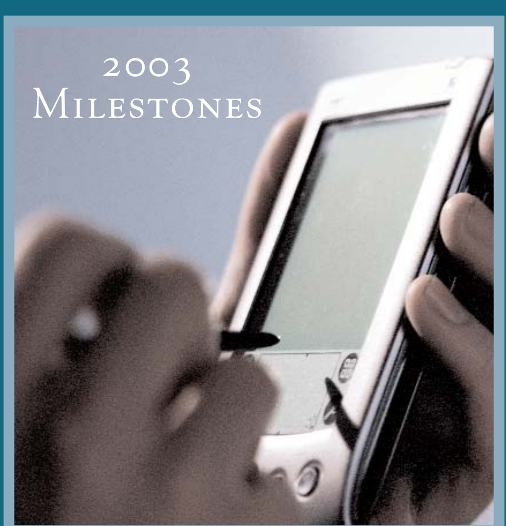
We also had success in all segments of our market, including integrated delivery networks (IDNs), academic medical centers, children's hospitals, specialty hospitals and community hospitals. We were very proud to win the business of such prestigious organizations as Memorial Sloan-Kettering Cancer Center, New York; Baylor Health Care System, Dallas; Calgary Health Region, Alberta, Canada; NewYork-Presbyterian Hospital; Children's Health System, Birmingham, AL; InterHealth Corp, Inc., Whittier, CA; Kaleida Health, Buffalo, NY; and Surgical Alliance Corporation, Nashville, among many others.

In addition to our success in the marketplace, 2003 was also the highest revenue year in the history of the company. Revenue increased by approximately 17% over 2002 revenue. These revenues were achieved with our recently implemented contracting model, which spreads revenues over the term of the contract as compared to traditional methods. In addition, we were successful in building our revenue backlog.

We continued our investments during 2003 in Research & Development (R&D), Sales & Marketing and the transition to our contracting model. Our investments in R&D and Sales & Marketing increased 39% and 31% respectively in 2003 over 2002. We believe the investments in our customers, R&D and our go-to-market activities have been a major contributing factor in our strong sales and record-setting revenue performance in 2003.

Product announcement

In the fourth quarter of 2003, we announced a delay in our SunriseXA delivery schedule due to system response time issues. Also in the fourth quarter, we announced our strategy to correct these issues and have subsequently



Q1
- Eugene V. Fife, former general partner with Goldman Sachs & Co., is appointed Chairman of the Eclipsys Board of Directors. Chairman and founder Harvey J. Wilson is named Chairman Emeritus.
- Independent research firm KLAS reports in its 2003 CPOE Digest: "Eclipsys CPOE solutions are used daily by more physicians in the inpatient setting than any other commercially available products." (Source: Eclipsys news release, February 25, 2003)
- James A. Cato, RN, CRNA, MHS, MSN, joins Eclipsys in the new role of Chief Nursing Officer.
- Independent survey by physician-led Five Rights Consulting ranks Sunrise Clinical Manager as one of the best CPOE information systems in use today.[8]

Q2
- Eclipsys records the highest quarterly bookings in the history of the company.
- NewYork-Presbyterian Hospital selects SunriseXA advanced clinicals and workflow modules for its two locations in Manhattan.
- For the third consecutive year, Sunrise Clinical Manager earns the highest rankings in the KLAS Top 20 2003 Mid-Year Report Card, for Acute Care Orders and Charting and Acute Care CDR and EMR.[9]
- NYU Medical Center and The Hospital for Joint Diseases Orthopaedic Institute, New York, sign to deploy SunriseXA advanced clinicals and workflow modules to migrate from their Eclipsys 7000 system.

made significant progress implementing this strategy. We also worked diligently to revise our delivery schedules for SunriseXA's advanced functionality and released those schedules to our customers and prospects in November 2003. We worked with each of our customers to adjust their implementation schedules to minimize any implementation delays.

In February 2004, we announced the general availability of SunriseXA 3.3, the foundation of our go-forward strategy that addresses the performance issue we announced. Our performance tests on SunriseXA and those by independent third parties have contributed to our confidence that we will meet the stringent performance demands required in the healthcare industry.

We are proud of the way the company pulled together to address this delivery schedule delay and the related concerns of our customers. Frankly, we believe the actions we took regarding this announcement are unusual in our industry. Most software developers avoid publicly discussing issues around performance and delivery delays. We felt that directly communicating this issue was the appropriate action to take for Eclipsys.

Building for the long term

We added significant strength to our leadership team in 2003. At the board level, Eugene V. Fife assumed the role of Chairman. We are fortunate to have an individual of Gene's caliber leading our Board of Directors.

James A. Cato, RN, CRNA, MHS, MSN, became Eclipsys' first Chief Nursing Officer. Jim's objective is to help us ensure that the informatics needs of nurses, the largest group of caregivers, are met by our workflow-enhancing solutions.

John Cooper, our Executive Vice President of Sales, has assumed additional and related responsibilities for the Marketing organization. The synergy of these two critical operations will benefit from John being at the helm of both organizations.

Russ Rudish joined the Eclipsys team as the new Executive Vice President of Services. He brings more than 20 years of healthcare experience, including a sincere customer-centric attitude. It is Russ' objective to significantly enhance our customer responsiveness and bring new value-added services to our customers.

Q3
- Eclipsys experiences the highest quarterly revenues in the history of the company.
- Baylor Health Care System, a network of 11 hospitals and 47 clinics, signs to deploy SunriseXA advanced clinicals.
- John Gomez joins Eclipsys from WebMD as new Chief Technology Officer.
- InterHealth Corp, Inc., selects Eclipsys' HIT and outsourcing solutions for its Whittier, CA, Presbyterian Intercommunity Hospital and its Presbyterian Health Physicians managed care network. The Eclipsys solutions will serve as the foundation of the hospital's technology transformation initiative.

Q4
- Eclipsys launches "Year of the Nurse" initiative at 2003 Eclipsys User Network (EUN) Annual Conference.
- Eclipsys announces strategy to address SunriseXA response time issues.
- Memorial Sloan-Kettering Cancer Center, repeatedly ranked by *U.S. News & World Report* as a leader in cancer treatment, will implement SunriseXA to achieve a complete electronic medical record.
- Microsoft and Eclipsys announce multi-year strategic alliance for collaboration on software development, marketing and sales.
- Russ Rudish joins Eclipsys from Cap Gemini Ernst & Young as Executive Vice President of Services.
- Calgary Health Region selects SunriseXA advanced clinicals for implementation in four hospitals. The system is an important building block for the electronic health record being developed across Alberta.
- Sunrise Clinical Manager again takes top honors in the Top 20 2003 Best in KLAS Awards vendor performance report in the Acute Care CDR, Orders and Charting market segment.[10]

John Gomez, a highly respected technology executive, became Eclipsys' new Chief Technology Officer. In a very short time, John has redesigned the structure and processes of our R&D organization and added significant new talent to the Eclipsys team on the ground.

We continued to strengthen our R&D and Sales & Marketing organizations. As previously noted, expenditures in these two areas increased 39% and 31% respectively over expenditures in the prior year. We believe these investments have been critical to our sales and revenue performance in 2003 and are important to establishing the foundation for future growth.

Clinical Knowledge Division

In 2003, we formed a new division, the Eclipsys Clinical Knowledge Division. This new division will focus on providing the medical content needed to achieve optimal quality of care and workflow benefits from an advanced clinical system, such as Sunrise Clinical Manager. We intend to provide this medical content primarily through partnerships with both our customers and other organizations that focus specifically on developing and maintaining the best practices in the industry. SunriseXA clinical content being provided by this new Eclipsys division includes clinical order guidelines for nurses and doctors at admission and discharge; sophisticated documentation templates for enhanced physician productivity; an expanded body of pre-built rules and alerts; and the latest evidence-based medical information from respected journals, textbooks and consensus reviews.

A number of actions have been taken in recent months to form the foundation for the Clinical Knowledge Division. As a cornerstone of this new division, Eclipsys merged with long-time strategic partner **CPMRC**, the Clinical Practice Model Resource Center. Eclipsys has been collaborating with CPMRC to develop Knowledge-Based Charting, an automated version of CPMRC's clinical methodology that will be incorporated into SunriseXA. Knowledge-Based Charting will provide real-time access to and content integration of over 180 evidence-based clinical practice guidelines into a pre-configured, interdisciplinary documentation system that meets the professional standards of the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and the Magnet nursing recommendations.

Eclipsys and CPMRC share the commitment of bringing the most advanced technology and evidence-based knowledge to nurses, physicians and interdisciplinary professionals at the point of care. The merger will allow us to quickly and creatively transform healthcare by providing revolutionary products and services for those who give and receive care.

In a related move, Eclipsys announced a strategic alliance with **Wolters Kluwer Health**, a leading multinational information services company. Wolters Kluwer's highly respected products will enable SunriseXA customers to access a world-class library of decision support materials from respected textbooks, drug references and healthcare databases. Order sets cover the majority of inpatient and ambulatory conditions in medicine and pediatrics.

Additionally, Eclipsys formed an alliance with **Clinician Support Technology, Inc. (CST)**, an application service provider of Internet-based, collaborative, healthware technology. This strategic alliance enables Eclipsys to provide healthcare organizations with specialty-specific content and communications in the areas of pediatrics and oncology for providers as well as patients and their families.

The CST CareLink approach personalizes and humanizes the healthcare experience while lowering costs. This supports Eclipsys' goal as The Outcomes Company® — to enhance not only clinical and financial outcomes, but satisfaction outcomes as well.

All of these clinical knowledge-enhancing solutions will improve patient safety while helping healthcare organizations achieve the full potential of their clinical information systems more quickly. Clinicians won't have to build out the initial guidelines, alerts and documentation templates themselves, which slows return on investment.

Trusted value partner

While all factors of how we interact with our customers and do business are important, *value* is the final benchmark used to judge our solutions and Eclipsys as a whole. Our objective is to consistently provide value to our customers through software and service solutions that address the safety, quality and cost challenges that they face. Our solutions must address the needs of the busy clinician. We are relentless about making our solutions and related technology easy to adopt and use by clinicians, because the value from advanced technology is only achieved by high clinician adoption of the technology.

We have launched the Clinical Knowledge Division because of the significant value our customers will realize through the tools and medical content made available through their work. We are focused on developing software solutions that have the lowest total cost of ownership when considering the full cost including infrastructure, implementation, training, hardware and maintenance costs.

Our goal is to build software solutions that are strategically relevant to the industry and enable our customers to outperform their competitors. We believe our technology has strategic value by enabling better care at a lower cost. We want our customers to see us as a strategic partner that helps them achieve their objectives.

A look ahead

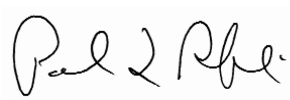
Our tactical goals and priorities for 2004 are clear and simple. First, continue the significant sales momentum that we experienced in 2003. Second, deliver high-quality products to our customers. This includes a major software release in the summer of 2004 and a second release in the winter of 2004/2005.

Our strategic goal is to significantly grow Eclipsys' presence in North America by building the best clinical, financial and information management software and service solutions in the industry. Additionally, we plan to create a delivery and services organization that works with our customers to obtain the value from our solutions. We believe value for our customers is what will create value for our investors.

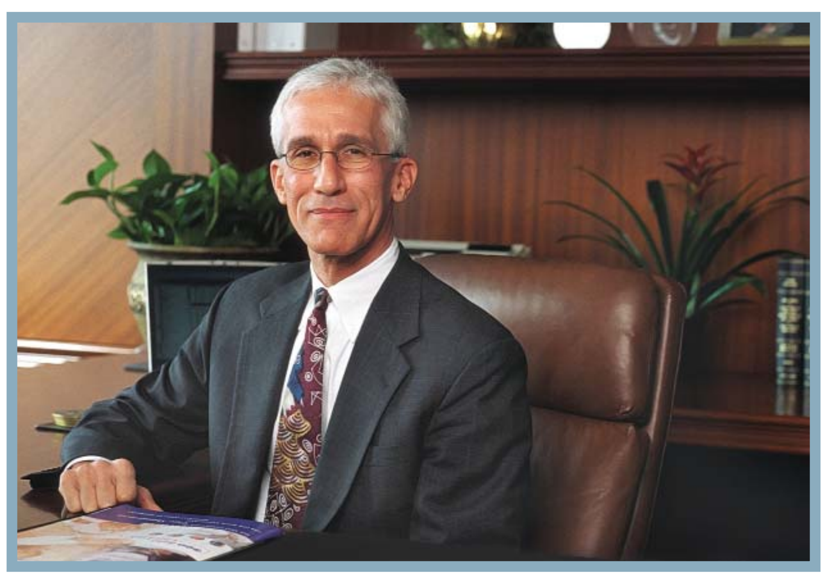
In closing

On behalf of the entire Eclipsys team, *thank you* for your continued support. I hope you share my optimism and enthusiasm for us in 2004 and beyond. It's a great time to be associated with Eclipsys.

Sincerely,



Paul L. Ruflin
President & CEO
Eclipsys Corporation



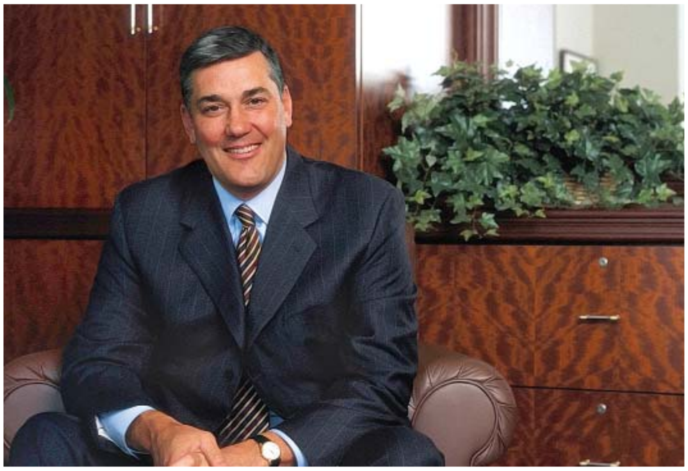
Value: our people

We talk a lot about the value of our software, our services and our customers. But we don't talk often enough about the quality and dedication of our team members. Nor do we talk often enough about how they make possible the value that Eclipsys customers receive from our solutions.

Through the expertise and many years of hard work of our employees, Eclipsys is able to produce innovative software and service solutions that make a difference in the quality and cost-effectiveness of healthcare. Our 1,800-plus employees are dedicated to embodying the Eclipsys core values of *Integrity, Quality, Entrepreneurship, Teamwork* and *Achievement* in everything they do. Now, because of our increased dedication to service, we have added *Service* as our sixth core value.

Eclipsys has always strived to provide a level of service that exceeds our customers' expectations. But now, by adding Service as an Eclipsys core value, we are signaling to our customers, strategic partners and ourselves our commitment to making this a true Eclipsys differentiator.

But don't take *our* word for it. Below are just a handful of the many compliments we receive virtually every day from our customers regarding our service.



'Through the strength of our people and our solutions, we're confident that we will continue to build on our strong momentum.'

John Cooper
Executive Vice President
Sales & Marketing

'Some people and companies say they're customer-focused, but when you pull back the covers, they're not. Eclipsys Desktop Services certainly is.'

T.E. Bozeman
Vice President & CIO
North Mississippi Health Services
Tupelo, MS

'I'm sending you this e-mail to pass along my thanks — and the thanks of Children's of Omaha — for the outstanding effort of the entire Eclipsys team that helped us achieve our very successful go-live. Eight major systems simultaneously...we couldn't have done it without you.'

Jan Rowe
Director, Information Technology
Children's Hospital
Omaha, NE

'The Eclipsys outsourcing team's attitude has been to do whatever it takes to get the job done. When presented with a challenge, they have risen to the occasion by finding solutions that are economical, professional and timely.'

Tommye Billing
CIO & Vice President of Information Technology
St. Vincent Health System
Little Rock, AR

As we say internally,

'Go Team Eclipsys!'

Value: MARKET RECOGNITION

The value of Eclipsys software and service solutions continued to gain visibility in 2003.

The media are publishing an increasing number of case studies profiling how Eclipsys customers are achieving value from our clinical and financial software. Our service solutions such as outsourcing and wireless are receiving significant visibility as well. Coverage has ranged from *CIO* magazine to numerous healthcare industry and general publications, both print and online.

Once again, 2003 was a rewarding year for Eclipsys solutions. In particular, Sunrise Clinical Manager remains on top in numerous independent surveys. For example, KLAS ranked it number one in the Acute Care Clinical Data Repository (CDR), Orders and Charting market segment for the third straight year in its Top 20 2003 Year-End Best in KLAS Awards.[11] KLAS has also noted that "Eclipsys CPOE solutions are used daily by more physicians in the inpatient setting than any other commercially available products." (Source: Eclipsys news release, February 25, 2003)

Our market traction is evidenced by the number of healthcare organizations of all sizes that selected our software and services in 2003. Just a few of these prestigious organizations are:

Baylor Health Care System, Dallas, an integrated delivery network of 11 hospitals and 47 clinic sites, signed to implement the entire SunriseXA advanced clinical information solution set. Baylor has been named by *Hospitals & Health Networks* magazine as one of the nation's "Most Wired" healthcare systems.

InterHealth Corp, Inc., is deploying Eclipsys' technology and outsourcing solutions in a single transaction at its Whittier, CA, community hospital. Eclipsys' SunriseXA advanced healthcare information solution and IT infrastructure management services will serve as the foundation of the hospital's technology transformation initiative. This significant undertaking is designed to help IHC achieve its goal of providing "future-state healthcare."

NewYork-Presbyterian Hospital selected SunriseXA's advanced clinical solution and workflow modules for its two locations in Manhattan. NewYork-Presbyterian is one of 17 *U.S. News & World Report* Honor Roll hospitals, all of which use one or more Eclipsys solutions to improve care delivery and operational efficiency.

Kaleida Health, Buffalo, NY, will deploy Eclipsys' advanced financial solution to streamline workflow and improve the organization's revenue cycle management. Kaleida Health, the largest healthcare provider in western New York, will deploy the Eclipsys solution across five acute care hospitals and numerous clinics.

Memorial Sloan-Kettering Cancer Center, New York, signed to implement SunriseXA to achieve a complete, organization-wide electronic medical record that integrates ambulatory and acute care settings, at a lower total cost of ownership. MSKCC has repeatedly been ranked by *U.S. News & World Report* as a leader in the treatment of cancer.

Calgary Health Region selected our SunriseXA advanced clinical solution and workflow modules. Calgary will deploy SunriseXA in its three urban adult hospitals and the new Alberta Children's Hospital. SunriseXA is an important building block for the complete electronic health record being developed across the province of Alberta.

Surgical Alliance Corporation, the Nashville-based developer and manager of specialty surgical facilities, licensed SunriseXA advanced clinicals and then implemented them in an aggressive seven-month time frame at Surgical Alliance's New Albany (OH) Surgical Hospital, which opened Dec. 1.

Athens Regional Medical Center, a 315-bed community hospital serving northeast Georgia, selected the SunriseXA advanced clinical solution and workflow modules. The medical center was named "Hospital of the Year" by the Georgia Alliance of Community Hospitals, and has been honored with the Solucient Gold Star Award for its commitment to financial and operational improvement. Hospital officials stated that SunriseXA is the most significant capital and process change they will make over the next decade.

Eclipsys is building a world-class software development team. This is enabling us to deliver innovative, future-state software solutions more rapidly and with the highest possible quality to meet our customers' ever-changing needs.

Leadership

Based on this vision, 2003 was a year of significant change for our software development organization, beginning with the hiring of our new Senior Vice President and Chief Technology Officer, John Gomez, in Q3. A highly respected executive in the health information technology industry, he has brought to Eclipsys a broad scope of experience in technology strategy, e-commerce, development and architecture.

As our CTO, Mr. Gomez's technical expertise contributes to the company's business vision, strategic technology plans and, ultimately, the needs of our customers. He focuses on identifying, tracking and evaluating new technologies to ensure that Eclipsys' information solutions are among the most cutting-edge technologies available in the HIT marketplace.

Every facet of Eclipsys' development efforts, processes and teams has been reviewed. Significant improvement has been made to streamline processes, improve quality control and position the company to continue to grow and evolve. We have also worked to strengthen Eclipsys' partner relationships and have introduced several programs to help achieve this goal.

In the spirit of building a world-class software development team, Eclipsys has assembled a seasoned and proven technology leadership team that is accountable for the success of our product development efforts. Our new leadership team represents a new way of thinking and unprecedented commitment to quality. To complement their talent, we have introduced a new organizational structure that includes key focus areas in strategic planning, software engineering, strategic alliances, emerging technologies, strategic engineering and quality assurance.

A new initiative within our organization is the establishment of a Performance, Scalability, Reliability and Security team. Also known as PSRS, this team is charged with the performance certification, scalability analysis, reliability engineering and proactive analysis of the security and privacy of Eclipsys systems. The PSRS team is one of many new initiatives introduced to assure our customers that their investment in Eclipsys solutions equates to high-performing, scalable, reliable and secure systems that set the standard for the industry.

Our Emerging Technologies and Strategic Planning teams seek to change the way that products are defined in the healthcare marketplace. Emerging Technologies focuses on ascertaining the value of long-term software investments and is directed by a leading clinical technologist. Strategic Planning translates our marketing and strategic vision to shipping

'OUR TEAMS SEEK TO CHANGE THE WAY THAT PRODUCTS ARE DEFINED IN THE HEALTHCARE MARKETPLACE.'

John Gomez
Senior Vice President
& Chief Technology Officer

a product, and is laying the foundation for new techniques that employ joint application and prototype-based development practices to help reduce our time to market.

Strategic partnerships

In 2003, our Strategic Partnering team was responsible for developing new and creative relationships with companies such as Microsoft, Hewlett-Packard and Intel, among others. These relationships helped provide Eclipsys with access to specialized technology talent, accelerated the migration of our clinical repositories to a 64-bit platform, and helped us evaluate new research in mobility and remote communication.

In addition, these strategic relationships have helped to accelerate our adoption of such critical technologies as Microsoft .NET, improve the interaction of our legacy systems and our strategic products, introduce new governance models, and provide us access to advanced testing labs.

Paving the way

The establishment of our Strategic Engineering group in 2003 helps ensure that Eclipsys will continue to pave the way for new and exciting healthcare information technologies. Our ObjectsPlus team is focused on the development of advanced computerized physician order entry objects and components that allow third parties to develop custom workflows and add-on applications that extend the functionality of our SunriseXA and Sunrise Clinical Manager software.

Our Portal and Mobility team is helping to develop the frameworks and systems required to enable patient-family communication, telemedicine, portable electronic medical records (EMRs), secure remote messaging, and community health portals.

All of these advancements would not be possible without the continued efforts of our Software Engineering team. This team is responsible for the day-to-day core development required to get Eclipsys products to market. Working with such technologies as SQL Server, TCP/IP, C++, C#, VB.NET and representing a broad range of specialty skills and focus areas, the Software Engineering group is the backbone of our R&D organization, now known as the Platform Engineering, Research and Technology (PERT) Division. This division reinvented itself in 2003 and is positioned to carry the corporate vision and mission of Eclipsys successfully in the coming years.

Communication

At the heart of all of our activities is a dramatically expanded focus on customer service and communication. Today, our customers have unprecedented access to our software development teams, including our CTO. Through ongoing CIO Roundtable teleconferences, regular Technical Design Workshops, a SunriseXA beta program and more, we are experiencing a level of two-way communication with our customers' management, clinical and technical teams that we believe has never before been achieved in our industry. It's yet another example of our dedication to Service, the latest addition to the Eclipsys core values.

2004 and beyond

As an early 2004 success, Eclipsys made generally available — on time in February — SunriseXA Release 3.3 to existing customers that had already implemented earlier versions of SunriseXA. As of this writing, SunriseXA 3.5, for use by all SunriseXA customers, is on track for its scheduled June 2004 delivery, and SunriseXA 4.0 is slated for general availability in winter 2004/05.

Releases 3.5 and 4.0 will add significant new capabilities (within such areas as Emergency Department, Medication Management, Ambulatory and others) while moving SunriseXA to even higher levels of system reliability, speed and flexibility.

Eclipsys remains committed to providing solutions that are based on Microsoft .NET and other industry standards. Solutions that are significantly ahead of the competition in workflow support, content and technology. Solutions that add substantive value. Solutions and customer service that exceed the expectations of our customers for many years to come.

It's not enough to have world-class software (which we do). Maximum value and return on investment are only achieved when combined with exceptional services. This includes how information technology is delivered and supported, how processes are re-engineered to improve workflows and outcomes, and how data is managed for greatest utilization.

Eclipsys continues to provide a range of superior information technology management services. As one of the industry's top providers of outsourcing-related solutions, Eclipsys is focused on expanding and improving its service solutions. Our goal is to become as well known for our leading-edge services as we are for our software.

To that end, we have created a new position of Executive Vice President of Services, and hired Russ Rudish to fill that role. It is his mission to bring new value-added services to our portfolio, while constantly improving the quality of the services we provide. These include Outsourcing (including facilities management, remote hosting and more), SunClinical Data Institute (data warehousing and benchmarking), Consulting Services (formerly known as the Business Solutions Group), Implementation, Technical Services (wireless networks and devices, desktop and related services), Education/Training and Customer Support.

Outsourcing — All facilities management accounts coming up for renewal in 2003 were renewed with multi-year commitments — a 100% retention rate. All of our facilities management customers are Eclipsys reference sites, clearly demonstrating customers' satisfaction with the quality and cost of service we provide.

In early 2004, Eclipsys reported that its Outsourcing Division had fulfilled the rigorous requirements for ISO 9001:2000 certification from the International Organization for Standardization (ISO). ISO is a worldwide standards association that provides the criteria used for quality management systems.

To obtain ISO 9001:2000 certification, the division was subjected to a detailed audit by an ISO-certified auditing company. The registration process also included a review of Eclipsys' IT outsourcing best practices in use at existing customer accounts, as well as at the Outsourcing Division's headquarters. At all locations, the ISO auditors observed a strong focus and commitment to quality by Eclipsys' outsourcing employees. The audit also reflected a high level of customer satisfaction at all customer locations.

Our remote hosting business continues to grow, with approximately 400 customers at the end of 2003. We were proud that last year our Technology Solutions Center (TSC) also

'We are only as good as our customers say we are.'

Russ Rudish
Executive Vice President
Services

met the rigid standards and requirements of the ISO 9001:2000 certification program. This followed a review of the entire set of quality practices established by the TSC on all of its technology platforms.

SunClinical Data Institute — SunClinical, new in 2002, continued to build on its customer base and solutions in '03. SunClinical is dedicated to helping healthcare organizations unlock the scientific and clinical management power that resides in their care delivery clinical information systems to enhance decision-making.

Eclipsys Consulting Services — Consulting Services will further expand its solutions and its staff in 2004. A wide array of services is currently provided in the areas of Clinical and Operational Performance Improvement, Decision Support, Revenue Cycle Management, and HIPAA. Consulting Services accelerates outcomes achievement through business and clinical process-improving knowledge. It also focuses management consulting practices on workflow optimization, performance improvement and organizational change management.

Implementation — Eclipsys continues to enhance our processes to make our implementations the shortest and smoothest in the industry. This optimizes use of customer and Eclipsys resources, and maximizes customers' return on investment and customer satisfaction. Our goal is for customers to be able to implement any of our solutions in as little as 7 to 12 months.

Technical Services — This group had a record-setting year for hardware sales in 2003, including those to such large organizations as Yale New Haven Health System, NewYork-Presbyterian Hospital and Orlando Regional Healthcare. Technical Services last year also successfully implemented the Vocera voice-activated wireless communications WiFi network and devices at El Camino Hospital, Mountain View, CA. Additionally, it deployed a wireless network, wireless devices and wireless communications in a major installation at Robert Wood Johnson University Hospital, New Brunswick, NJ. Technical Services includes such outcomes-based technology solutions as wireless infrastructure, wireless voice communication, servers and storage, and high-availability audits and planning, among others.

Education — With all of Eclipsys' many solutions, our Education Services department keeps very busy helping prepare our customers to receive full value from our products. New in '03 and expanding in '04 is the provision of continuing education credits for many classes. In 2003, Eclipsys became the first HIT provider to offer continuing education credits for nursing end-user training.

And as always, as we provide these and other services and launch new initiatives, **customer service** remains front and center. Only through a close working relationship and true partnership with our customers can Eclipsys provide the best value and live up to our commitment as The Outcomes Company.

We were pleased with our performance in 2003, and believe we are building value for our shareholders.

In 2002, we made a proactive choice to change our business model and implemented the resulting financial strategy. In this regard, we implemented our new contracting model and significantly increased our investments in R&D and Sales & Marketing. As anticipated, this had a short-term negative impact on our revenues, cash flows and operating results. In 2003, Eclipsys began to see positive returns on our investments, experiencing significant success in the marketplace, as demonstrated by our strong sales and record-setting revenues.

Our business model has benefits on a number of fronts. For our customers, we have adopted a contracting model that is designed with their needs in mind. Our payment model spreads the cost of our software and software maintenance over the life of our customers' contracts. This enables them to more closely align the cost of our products and services with the value that they receive. We believe this is particularly critical within today's capital-constrained healthcare industry, and establishes Eclipsys as a long-term value partner.

For Eclipsys, our investments in Sales & Marketing have increased the recognition of our company in the marketplace and helped us procure a significant level of new business over the past year. Our R&D expenditures have helped us make significant progress with our product strategy and delivery.

For our shareholders, we believe the changes we've made in our business model have built a foundation that will enable us to provide long-term, sustainable value through future growth and profitability.

'OUR INVESTMENTS HAVE POSITIONED ECLIPSYS TO BE A LONG-TERM PLAYER IN THE HIT INDUSTRY. WE ARE STARTING TO SEE THE BENEFITS OF OUR BUSINESS MODEL.'

Robert J. Colletti
Senior Vice President
& Chief Financial Officer

References

[1] Reprinted by permission, Healthcare Financial Management Association, 2004

[2] See reference 1.

[3] KLAS Top 20 Year-End Best in KLAS Awards, 2003, p.10, *www.healthcomputing.com* ©2003 KLAS Enterprises, LLC. All rights reserved.

[4] KLAS Top 20 Mid-Year Report Card, 2003, p. 14, *www.healthcomputing.com* ©2003 KLAS Enterprises, LLC. All rights reserved.

[5] KLAS CPOE Digest, 2004, p. 7, *www.healthcomputing.com* ©2004 KLAS Enterprises, LLC. All rights reserved.

[6] Frost & Sullivan, U.S. Computerized Physician Order Entry Solutions Markets, 2002, January 2003, p. 38

[7] Medication Safety Tools 2003, Evaluation of Vendor Offerings for Computerized Physician Order Entry and Medication Administration, FIVERIGHTS Consulting, Inc., January 24, 2004, Richard Kremsdorf, MD, p. 37

[8] See reference 7.

[9] KLAS Top 20 Mid-Year Report Card, 2003, p. 8, *www.healthcomputing.com* ©2003 KLAS Enterprises, LLC. All rights reserved.

[10] KLAS Top 20 Year-End Best in KLAS Awards, 2003, p. 7, *www.healthcomputing.com* ©2003 KLAS Enterprises, LLC. All rights reserved.

[11] See reference 3.

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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, 2003 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	**65-0632092**
(State of Incorporation)	*(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, 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. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act rule 12b-2). Yes ☒ No ☐

The aggregate market value of the common stock held by non-affiliates of the registrant as of March 10, 2004 based upon the closing price of the Common Stock on the NASDAQ National Market for such date was $500,690,630.

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

Class	Shares Outstanding as of March 10, 2004
Common Stock, $.01 par value	46,337,485

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 2004 will be incorporated by reference into Part III of this Form 10-K.

Part I

This report contains forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the forgoing, 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", 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. We undertake 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, or HIT, company. We develop and license our proprietary software to hospitals. Our software allows them to automate many of the key clinical, administrative and financial functions that they require. Our software is designed to improve patient care and patient satisfaction for our customers, and allow them to reduce their operating costs and enhance their revenues. Among other things, our software enables physicians and nurses to check on a patient's condition; order patient tests; review test results; monitor a patient's medications; and provide alerts to changes in a patient's condition. Our software also enables hospitals to admit patients; maintain patient records; create invoices for billing patients or insurance companies; control inventories; effect cost accounting; schedule doctor's visits; determine the profitability of physicians and physician groups; understand the profitability of specific medical procedures; and perform numerous other functions.

We also derive revenues from services we provide to our customers for implementing our software; software and hardware maintenance; outsourcing; remote hosting HIT applications; network services; and training and consulting.

We believe one of the key selling points of our software is that it is open and modular. This means that our software can be installed one application at a time or all at once. Our software is also created to work easily with the software developed by other vendors. This enables our customers to install our software without the disruption and expense of replacing their entire software systems to gain additional software functionality.

We maintain a decentralized sales force to better serve our customers. We have ten North American sales regions through which we maintain direct, sustained contact with our customers. We market our software to small, stand-alone hospitals, large multi-entity healthcare systems and academic medical centers. We have one or more of our software applications installed in, or licensed to be installed at, over 1,500 facilities. All 17 of the top-ranked U.S. hospitals in the July 28, 2003 issue of *U.S. News & World Report* use one or more of our solutions.

Our Internet website address is www.eclipsys.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto that have been filed with the SEC are available to you free of charge through a hyperlink on our website.

Recent Developments

In October 2003, we identified the existence of certain response time issues with some components of the newest version of our software known as SunriseXA. We have concluded that the root cause of the issue was in the technical design of SunriseXA, which did not adequately support the throughput required in the highly interactive patient care environment. After careful analysis, we announced a strategy designed to address these issues. The strategy involved replacing the affected SunriseXA components with certain key components from our Sunrise Clinical Manager product, or SCM, our prior generation core clinical product. This strategy was designed to allow SunriseXA customers to continue their deployment of SunriseXA, and to enable us to continue the development of advanced SunriseXA functionality.

Since that time, we have been working to implement this strategy. In February 2004, we announced the general commercial availability of SunriseXA Release 3.3. The general availability of this release fulfilled a key deliverable expected by our customers that had implemented the initial version of SunriseXA. Release 3.3 combines components of SCM with the SunriseXA database schema, consistent with our new SunriseXA strategy.

In addition, we are currently developing a more extensive release of SunriseXA known as Release 3.5. SunriseXA Release 3.5 will utilize the same database engine and intuitive user interface as is currently deployed in SunriseXA 3.3. Release 3.5 is currently scheduled for general availability in early summer 2004, and will contain advanced clinical functionality that will serve as the next phase in the evolution of our product.

Although we believe that we have made significant progress in implementing our strategy and proving its technological feasibility, we continue to face a variety of risks and uncertainties in this regard, including those described under "Certain Factors That May Affect Future Operating Results".

Challenges and Compliance Pressures in the Healthcare Industry

Hospitals are under increased pressure to reduce medical errors and to increase operational efficiencies. We believe that our software enables customers to achieve these objectives. Several powerful organizations have lobbied for changes within the healthcare industry to enable hospitals to deliver better patient care, to increase patient satisfaction and to enhance overall hospital efficiency. Legislation is also requiring changes within the healthcare industry. We believe that these changes may increase the demand for our products.

Institute of Medicine. In 1999, the Institute of Medicine, or IOM, issued a report entitled "To Err Is Human: Building a Safer Health System". In it, the IOM called for the expanded use of information technology to reduce avoidable medical errors by 50 percent in the U.S. over the ensuing five year period. According to that report, between 44,000 and 98,000 people died each year as a result of medical errors. The IOM concluded that more people were injured from preventable mistakes than from many other common illnesses or accidents. The IOM report identified medication and pharmacy errors as significant causes of deaths and adverse events. In 2003, the IOM released a separate report stating that medical errors may be reduced through widespread adoption of information technology, such as electronic medical records that can be connected through a national system linking all healthcare organizations.

The Leapfrog Group. The IOM report resulted in the formation of The Leapfrog Group, a consortium of more than 150 companies including Fortune 500 companies and large private and public healthcare purchasers representing more than 34 million healthcare consumers within the United States. Leapfrog Group members and their employees spend billions of dollars on healthcare annually. The Leapfrog Group is urging its members and their employees to base their healthcare purchases on principles that encourage hospitals to utilize stringent patient-safety measures such as computerized physician order entry systems, or CPOE. The adoption of CPOE is a leading Leapfrog recommendation for reducing medical errors.

The IOM and The Leapfrog Group are leveraging their influence to encourage hospitals to use advanced clinical software to reduce adverse drug events and medical errors. Their influence, coupled with consumer demands, are spurring new government legislation. Twenty-one states have legislated mandatory reporting laws regarding healthcare quality and patient safety. California has passed legislation mandating the eventual adoption of information technology for hospitals to reduce avoidable medical errors.

Health Insurance Portability and Accountability Act. Federal regulation in this area includes the Health Insurance Portability and Accountability Act of 1996, or HIPAA. HIPAA seeks to impose national health data standards on covered entities. Under HIPAA, a covered entity includes (i) health care providers that conduct electronic health transactions; (ii) health care clearinghouses that convert health data between HIPAA-compliant and non-compliant formats; and (iii) health plans. The HIPAA standards prescribe, among other things, transaction formats and code sets for electronic health transactions, in order to protect individual privacy by limiting the uses and disclosures of individually identifiable health information. HIPAA also requires covered entities to implement administrative, physical and technological safeguards to ensure the confidentiality, integrity, availability and security of individually identifiable health information in electronic form.

Under HIPAA, covered entities are required to utilize HIPAA-compliant products, software and services. The cost of achieving HIPAA compliance has affected companies throughout the health care industry, regardless of whether they are covered entities. We believe that the need for HIPAA-compliant products, software and services will continue to create demand for our software and services. Though we are not a covered entity under HIPAA, many of our customers are. Accordingly, we have developed our software to be HIPAA compliant.

Joint Commission on Accreditation of Healthcare Organizations, or The Joint Commission. The Joint Commission on the Accreditation of Healthcare Organizations, or JCAHO, is an independent non-profit organization that provides voluntary evaluation and accreditation for nearly 18,000 healthcare organizations and programs in the United States. JCAHO periodically introduces new process improvement initiatives, standards and performance measurements that are used to assess hospitals. JCAHO has also established patient safety standards that require hospitals to initiate specific efforts to prevent medical errors and inform patients when they have been unknowingly harmed during treatment. Additionally, each year since 2002, JCAHO has approved annual National Patient Safety Goals that include specific recommendations for improving patient safety. Most of our customers seek to comply with JCAHO standards. We believe that our software and services aid our customers in meeting JCAHO standards.

The Internet. We believe that growth in the use of the Internet will enable consumers to be more involved in their healthcare choices. Additionally, we expect that the Internet will provide increased availability of medical information to physicians, clinicians and healthcare workers. As consumers and physicians adopt web-centric lifestyles, we believe that our products and services will become more appealing to a wider customer base and may increase demand for our software and services.

The Eclipsys Solution

Our software and services are used primarily by physicians, nurses and clinicians. We provide comprehensive software functionality that enables hospitals and care providers to address many of their key clinical, financial and administrative needs.

Among other things, our software is designed to:

- provide hospitals with automated processes that improve clinical workflow and support clinical decision-making;
- provide clinicians with access to patient information and supporting references, such as medical journals, through a variety of technologies that include, among other things, wireless devices within the healthcare facility and over the Internet;
- provide hospitals with the information that they need to negotiate with insurance companies, Medicare and Medicaid, and to help them maximize collections and minimize payment denials;
- provide clinicians with real-time information regarding the cost and effectiveness of patient tests and treatments;
- assist our customers in improving processes and implementing best practices within their hospitals;
- allow our customers to meet their clinical and business needs while preserving the investments that they have made in their existing software and systems, to the extent possible; and
- encourage faster, more cost-effective implementation of customers' in-house or remote-hosted software systems that our customers may operate with a lower total cost of ownership.

The Eclipsys Strategy

We seek to become the leading provider of software and services within the healthcare industry. Key elements of our strategy include the following:

Providing Comprehensive, Integrated Healthcare Information Technology Solutions. We offer software and services that run most of the critical functions in a hospital. Our research, development and technical support professionals develop, support and commercialize our proprietary software products. In the development of our software products we utilize various software technologies. Increasingly, our new and strategic development is done using Microsoft .NET Framework. We believe our use of Microsoft .NET Framework will allow us to focus our engineering and development resources on the development of domain specific features and functions while reducing our need to invest in the development of proprietary infrastructure solutions and services.

Continue to Leverage Our Relationship with Microsoft. We have a strategic alliance with Microsoft Corporation. We believe that our alliance with Microsoft provides us with significant advantages. The goal of this alliance is to provide innovative healthcare solutions to our customers which, in turn, will make it easier for them to use our software with their existing software at a lower total cost of ownership. As a cornerstone of this alliance, we are collaborating with Microsoft on marketing, sales and software development fronts. We are also working with Microsoft to create and execute cooperative sales and marketing campaigns, which we believe will deliver value to our customers. Together, we seek to embed Microsoft's .NET Framework, smart client technology and Web services into our SunriseXA software. We believe that this will provide our customers with richer, better connected and more productive experiences across desktop and mobile devices.

Provide Flexible Product Options. We are committed to offering our customers flexible products and product-delivery options. Our software can be operated at the hospital or may be hosted by us remotely. Our software solves many of our customer's clinical, financial and administrative needs. Furthermore, our customers can purchase our software components individually or in combination. Our software may also be integrated into our customers' existing systems to minimize cost and disruption.

Continue Expansion and Penetration of Customer Base. We believe that there is a significant opportunity for us to sell our software and services to a wider target market. Our sales professionals target both existing and prospective customers. Our target customers include large healthcare organizations, academic medical centers and small stand-alone hospitals. Few of our current customers have enterprise-wide, health information systems such as those that we offer for sale. Today, one or more of our products are installed at, or are licensed to be installed in, over 1,500 facilities. We intend to continue marketing our software and services aggressively to capitalize on the growth opportunities that we believe exist.

Contracting Model. We have adopted a contracting model that is designed with our clients in mind. Our payment model spreads the cost of our software and software maintenance over the life of our customers' contracts, which enables them to more closely align the cost of our products and services with the value that they derive. We believe that this is particularly critical within today's capital-constrained, healthcare industry.

Products

Our products perform many of the core software and technology functions that hospitals require. Our software is available for implementation on site or through our remote hosting services. Our software is designed to work in a variety of healthcare settings and throughout a healthcare organization. The following table summarizes our principal software offerings:

Product	Primary Functions
Sunrise Clinical Manager	• Computer-based 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
eWebIT	• Tools to enable integration of data from existing systems

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

- Order entry, communication and management, which enable 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, or SAM, enables healthcare providers to identify the patient at any time within a hospital and to collect and maintain patient information on an enterprise-wide basis. SAM's single database structure permits simultaneous access to the patient record by authorized personnel from any access point within a hospital's computer systems. SAM provides the following functionality:

- Comprehensive admission, discharge and transfer, or 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, significantly reducing the opportunity for 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, or SPFM, 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; a trend that we believe generally improves compliance with managed care contracts. SPFM 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 SAM and SCM.

- 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 performs the following:
  - 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; and
  - breaks down and ages each account's receivables according to the responsible payer 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, or SDSM, creates a clinical and financial data repository by integrating data from throughout the enterprise. SDSM gathers information from within a hospital or hospital system. The data SDSM collects can then be analyzed to determine the patient-level costs of care and for identifying areas for improvement. This information allows a hospital to evaluate its cost structure, make changes in clinical processes to reduce costs and accurately price reimbursement contracts on a profitable basis. SDSM also analyzes and measures clinical process and outcomes data, and helps to identify the practice patterns that most consistently result in the highest quality care at the lowest cost. SDSM is an important component of our customers' ability to measure and document improved clinical outcomes and return on investment. SDSM 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, or SRM, provides comprehensive clinical data management and enterprise-wide document and image-management functions. We believe that SRM improves productivity, efficiency and accountability. SRM provides multiple users with convenient and concurrent access to information, wherever they are stationed throughout a hospital. SRM includes the following functionality:

- 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;
- JCAHO-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.

eWebIT. eWebIT 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. eWebIT's product suite includes tools to achieve this integration, primarily through the use of Web-based integration technologies. eWebIT 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.

SunriseXA™ Initiative

During 2003, we continued the SunriseXA initiative that we began approximately 30 months ago. This initiative is focused on re-engineering and migrating our Sunrise suite of software to the Microsoft .NET Framework. SunriseXA's extended architecture is built on Microsoft's .NET Framework as well as other technologies. We believe our approach allows our software to be more open and extensible, which allows it to work more easily with a customer's legacy and ancillary systems. This architecture also enables hospitals to use their existing technology investments, and to add other software products as functional needs and resources dictate. SunriseXA is built upon a single database known as a computer-based patient record, or CPR. The CPR can be used by all components within SunriseXA regardless of where in the hospital a physician, nurse or employee resides. SunriseXA is designed to prevent the isolation of information and duplication of functionality that can occur with other information technology, or IT, systems. We believe that this approach will enable a faster, more cost-effective implementation of our software, simplify software maintenance and provide a lower total cost of ownership for customers.

During 2002 and throughout 2003, we released components of SunriseXA. These releases have included core physician and nursing applications in the inpatient, ambulatory and emergency department venues. We also released expanded clinical decision support application security software, along with advanced user-friendly configuration tools.

On October 20, 2003, we announced the existence of certain response time issues within some components of our SunriseXA software. To address these issues, we developed a strategy that would allow our SunriseXA customers to continue their deployment of SunriseXA, while at the same time enabling us to continue our development of advanced SunriseXA functionality. Our announced strategy is to replace the affected SunriseXA components with certain components of our SCM product.

We intend to continue to develop planned advanced SunriseXA functionality, including Clinical Documentation, Ambulatory, Emergency Department, Secure Health Messaging, Access and Medication Management. In addition, we intend to continue our development of SunriseXA Objects Plus, which is designed to meet customer demand for the customization of SunriseXA. We are also working to develop SunriseXA Portal, which is designed to allow remote Web-based access to the SunriseXA database. This portal and mobility strategy is intended to allow our customers to review results and place patient orders securely and easily using a web browser and brings us closer to the realization of our vision of providing the right information at the right time.

For further discussion on SunriseXA and the response time issue see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Hardware and Related Offerings — Finally, as part of our commitment to being a comprehensive software and services provider, we 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 to our customers for which we earn revenues. Our services may be summarized as follows:

Implementation, Integration, Product Support, Training and Maintenance — We offer our customers professional assistance in the implementation of our software, the conversion and integration of their historical data into our software and systems, as well as ongoing training and support. We offer 24-hour software support to our customers, and provide them with the latest information regarding our products. We also provide regular maintenance releases to our customers, as well as comprehensive training programs.

Outsourcing Services — We provide outsourcing services to our customers. This means that we assume all responsibilities for a hospital's IT operations using our employees. Our outsourcing services include facilities management, network outsourcing and transition management.

- Facilities management enables our customers to improve their IT operations by allowing us to assume responsibility for all aspects of their internal IT operations.
- Network outsourcing provides our customers with total information network support. This relieves our customers of the need to secure and maintain an expensive IT infrastructure in a rapidly changing technological environment.
- Transition management offers our customers a solution for migrating their IT to new processes, technologies or platforms without interfering with their delivery of healthcare.

Remote Hosting Services — We provide remote hosting services to our customers. This means that we assume complete processing of our customers' IT operations using our equipment and personnel at a facility that we maintain in Mountain Lakes, New Jersey. This frees an organization from maintaining the environment, equipment and technical staff required to support their IT operations.

Network Services — We offer a comprehensive package of services for our customers' computer networks. Our professionals are able to assess changes in network utilization and function, forecast necessary upgrades to accommodate a customer's growth, and design required changes to provide our customer's with required network performance and functionality. We offer our services in various forms, ranging from onsite assistance to complete project deliveries with guaranteed fixed prices.

Solutions Consulting — We also offer consulting services to help customers to improve their operations.

Marketing and Sales

Our marketing and sales teams target small, stand-alone hospitals, large multi-entity healthcare systems and academic medical centers. We sell our products and services in North America exclusively through our direct sales force. The management of our sales force is decentralized, with three senior vice presidents having primary responsibility for sales and marketing within three areas. The areas, in turn, are broken down into a total of ten regions. Within each sales region, our sales force is organized into two separate groups. The first is focused on generating sales to new customers. The second is focused on additional sales to existing customers. Our direct sales force works closely with our implementation and product line specialists. We also have a team of experts with extensive experience with each of our specific software applications that support our sales force. Our sales personnel are compensated principally on a performance basis.

Research and Development

We believe that our future success depends on our ability to maintain and enhance our product lines and in developing new products that appeal to our customers. We seek to maintain technological competitiveness and respond to our customers' expanding needs. We are currently developing our software based on Microsoft's .NET Framework and other industry standards. We are also creating new functionality for our existing software. Since the announcement of our SunriseXA response time issues in October 2003, we have made significant changes within our research and development department. Among other things, we have decreased our reliance on outside vendors that have historically aided our internal personnel in developing our software. In addition, we have hired a new chief technology officer who is principally responsible for our software development. Our chief technology officer has substantial experience in the development of commercial software. To assist him, we have also hired new senior software engineers with substantial experience. This team has adopted a new software development methodology, Microsoft's Solutions Framework. This new methodology allows us, among other things, to gauge the quality and performance of our software development efforts in 24 hour increments. We believe that these significant changes in our development organization will position us to deliver quality software that will meet or exceed our customers' needs.

Competition

We face intense competition in the marketplace. We are confronted by rapidly changing technology, evolving user needs and the frequent introduction of new products to meet the needs of our current and future customers. Our principal competitors include Cerner Corporation, Epic Systems Corporation, GE Medical Systems, IDX Systems Corporation, McKesson Corporation, QuadraMed Corporation and Siemens AG. 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 as a result of continued consolidation in both the information technology and healthcare industries. The principal factors that impact competition within our 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, 2003, we had 1,877 employees. Our success depends on our continued ability to attract and retain highly skilled and qualified personnel. Competition for such personnel is intense in our industry, particularly for software developers, service consultants and sales and marketing personnel. We cannot be assured 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.

Financial Information About Geographic Areas

Revenue from U.S. operations totaled $244.3 million in 2003. Revenue from outside the United States totaled $10.4 million in 2003. Long-lived assets totaled $73.6 million in the United States in 2003 and $0.1 million in other countries in 2003.

Certain Factors That May Affect Future Operating Results

There are a number of important factors that could affect our business and future operating results including, without limitation, the factors set forth below. The information contained in this report should be read in light of such factors. Any of the following factors could harm our business and future operating results.

We face a number of risks relating to our recently announced strategy to address SunriseXA response time issues

In October 2003, we announced the existence of certain response time issues within some components of SunriseXA, the newest version of our Sunrise family of products. We concluded that the root cause of the issue was in the technical design of SunriseXA, which did not adequately support the throughput required in the highly interactive patient care environment. After substantial analysis, we announced and are pursuing a strategy designed to address these issues. Our strategy is to replace the affected SunriseXA components with certain components from our SCM product, which is our prior generation, core clinical product. Although we believe that we have made significant progress in implementing that strategy and proving its technological feasibility, we continue to face a variety of risks and uncertainties in this regard including the following:

- We may encounter technical obstacles and delays in implementing this approach. As we continue to implement our strategy, it is possible that we could discover additional problems with our software.
- It is possible that the availability of SunriseXA Release 3.5, or the releases of anticipated additional features for our products, may be delayed. This could result in delayed or lost sales.
- Customers who are currently implementing SunriseXA have faced delays in their implementations. As a result, existing SunriseXA customers could attempt to cancel their contracts with us or seek financial or other concessions from us.
- As a result of the changes we will make to our SunriseXA product offering, potential customers may find such products less appealing, which could decrease demand for our products.
- Operating results for the year ended December 31, 2003 reflect a $1.2 million write-down of capitalized software development costs related to certain SunriseXA components and a warranty reserve of $4.4 million related to the anticipated costs associated with the SunriseXA response time issue. Although we believe that this reserve is adequate to cover any potential losses, it is possible that we may discover additional facts that lead us to conclude that additional write-offs or reserves may be required.

These issues could harm our relationships with customers generally and our reputation in the marketplace.

Our product strategy is dependent on the continued development and support by Microsoft of its .Net Framework and other technologies

Our product strategy is substantially dependent upon Microsoft's .Net Framework and other Microsoft technologies. The .Net Framework, in particular, is a relatively new and evolving technology. If Microsoft were to cease actively supporting .Net or other technologies, fail to update and enhance them to keep pace with changing industry standards, encounter technical difficulties in the continuing development of these technologies or make them unavailable to us, we could be required to invest significant resources in re-engineering our products. This could lead to lost or delayed sales, unanticipated development expenses and harm to our reputation, and would cause our financial results and business to suffer.

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 hospitals, our target market. Furthermore, our software is expensive and generally requires significant capital expenditures by our customers. The sales cycle for our software ranges 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 complete software implementation. During the sales and implementation cycles, we expend substantial time, effort and financial resources preparing contract proposals, negotiating the contract and implementing the software. 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. This could harm our future operating results. Additionally, any decision by our customers to delay a purchase or 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 faces 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 software often involves a significant financial commitment by our customers. 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

We had a net loss of $56.0 million for the year ended December 31, 2003. We also had net losses of $29.8 million in 2002, $34.0 million in 2000, $9.4 million in 1999, $35.3 million in 1998, and $126.3 million in 1997. In 2001, we had net income of $4.4 million, although we had a loss from operations of $1.6 million. We may continue to incur net losses and cannot predict when, or if, we will 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 operating results may continue to fluctuate due to a number of factors, including:

- our progress in implementing our strategy to address our SunriseXA response time issues and the level of costs associated with that effort;
- 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 software, services and hardware;
- changes in our operating expenses;
- the timing and size of future acquisitions;
- personnel changes;
- the performance of our products;
- significant estimates made by management in the application of generally accepted accounting principles; and
- fluctuations in general economic and financial market conditions, including interest rates.

It is difficult to predict the timing of revenues that we receive from product sales, because the sales cycle can vary depending upon several factors. These include the size and terms of the transaction, the changing business plans of the customer, the effectiveness of the customer's management, general economic conditions and the regulatory environment. In addition, the timing of our revenue recognition could vary considerably depending upon the extent to which our customers elect to license our products under arrangements where revenues are recognized monthly. Generally, less revenue is recognized under these arrangements during the first 12 to 24 months compared to traditional licensing arrangements. We will also continue to offer contracts using our more traditional licensing arrangements. 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. Stockholders should not rely on these comparisons as indicators of future performance.

Because in many cases we recognize revenues for our software monthly over the term of a customer contract, downturns or upturns in sales will not be fully reflected in our operating results until future periods

We recognize a significant portion of our revenues from customers monthly over the terms of their agreements, which are typically 7 years. As a result, much of the revenue that we report each quarter is attributable to agreements executed during prior quarters. Consequently, a decline in sales, client renewals, or market acceptance of our products in one quarter, would not necessarily be reflected in revenues in that quarter, and may negatively affect our revenues and profitability in future quarters. In addition, we may be unable to adjust our cost structure to reflect these reduced revenues. This monthly revenue recognition makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new customers must be recognized over the applicable agreement term.

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 Corporation, Epic Systems Corporation, GE Medical Systems, IDX Systems Corporation, McKesson Corporation, QuadraMed Corporation and Siemens AG. We also face competition from providers of practice management systems, general decision support, database systems and other segment-specific applications, as well as from HIT 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 hospitals have consolidated to create larger healthcare 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 Food, Drug, and Cosmetic Act, 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 a 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 FDA Act regarding 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.

Changes in federal and state regulations relating to patient data could depress the demand for our products and impose significant product redesign costs on us

The demand for health care information systems is affected by state and federal laws and regulations that govern the collection, use, transmission and other disclosures of electronic health information. These laws and regulations may change rapidly and may be unclear or difficult to apply.

HIPAA imposes national health data standards on (i) health care providers that conduct electronic health transactions; (ii) health care clearinghouses that convert health data between HIPAA-compliant and non-compliant formats; and (iii) health plans. Collectively, these groups are known as Covered Entities. The HIPAA standards prescribe transaction formats and code sets for electronic health transactions; protect individual privacy by limiting the uses and disclosures of individually identifiable health information; and require Covered Entities to implement administrative, physical and technological safeguards to ensure the confidentiality, integrity, availability and security of individually identifiable health information in electronic form. Though we are not a covered entity, most of our customers are and require that our software and services be HIPAA compliant.

There are several HIPAA compliance deadlines for Covered Entities. The final compliance deadline for the transaction and code set standards was October 16, 2003. The compliance deadline for the privacy standards was April 14, 2003 for most Covered Entities. Any failure or perception of failure of our products or services to comply with HIPAA standards could adversely affect demand for our products and services, and force us to expend significant capital, research and development and other resources to modify our products or services to address the privacy and security requirements of our customers.

States may adopt privacy standards that are more stringent than the federal HIPAA privacy standards. This may lead to different restrictions for handling individually identifiable health information. As a result, our customers may demand information technology solutions and services that are adaptable to reflect different and changing regulatory requirements. In the future, federal or state governmental authorities may impose additional restrictions on the collection, use, transmission and other disclosures of health information. We cannot predict the potential impact that these future rules, as finally approved, may have on our business. However, the demand for our products and services may decrease if we are not able to develop and offer products and services that can address the regulatory challenges and compliance obligations facing our customers.

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, among other things, assist in clinical decision-making, provide access to patient medical histories and assist in creating patient treatment plans. If our software fails 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. In addition, we require that our customers approve all system rules and protocols. Despite these precautions, 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 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 nine 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 management's attention 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 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 HIT 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, particularly our ability to continue to release our products onto Microsoft's .NET Framework under the SunriseXA initiative, 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. Most of these licenses expire within one to five 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 or are unsuccessful in their continued research and development efforts, particularly with regard to Microsoft, 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.

We face litigation that could force us to pay significant damages and could distract our management team

From July through September 2002, our company and three of its then current officers (Messrs. Robert J. Colletti, John T. Patton, Jr. and Harvey J. Wilson) were named in seven complaints filed by purported shareholders of our company in the United States District Court, Southern District of Florida, West Palm Beach Division, or the District Court. Each complaint sought certification as a class and monetary damages, and alleged that we and the named officers violated federal securities laws. We believe that the actions are without merit, and are conducting a vigorous defense.

On February 4, 2003, the District Court issued an order consolidating all seven cases into one single case and appointed the City of Philadelphia Board of Pensions and Retirement, Louis Giannakokas and Norman K. Mielziner to serve as lead plaintiffs. On April 30, 2003, the plaintiffs filed with the District Court an amended, consolidated complaint, the Amended Complaint. On July 31, 2003, we filed a motion to dismiss the Amended Complaint. On September 16, 2003, the plaintiffs filed opposition to the motion to dismiss, and we filed a reply brief on October 16, 2003. On November 4, 2003, the District Court granted our motion to dismiss the Amended Complaint in its entirety. In so doing, the District Court granted the plaintiffs fifteen days to file a further amended complaint that conforms to applicable law as well as the District Court's ruling. The plaintiffs subsequently obtained an extension of that fifteen day deadline.

On December 5, 2003, the plaintiffs filed with the District Court their second amended complaint, or the Second Amended Complaint. In it, among other things, the plaintiffs reduced the class period by a total of eight months and eliminated numerous allegations that had been contained in their Amended Complaint. On January 5, 2004, we filed a motion to dismiss the Second Amended Complaint. The plaintiffs filed opposition papers to our motion on February 20, 2004. In March 2004, we will file a brief in further support of our motion. At this time, our motion is pending. We do not know when the District Court will rule on our motion or whether our motion will be granted.

Separately, in October 2003, we were contacted by the attorneys for the lead plaintiffs who sought our consent to their filing of an amended complaint that would add new counts asserting new claims and a new class period due to our announced SunriseXA response time issues. We did not formally respond to their request, and have not yet seen any pleadings filed in which the lead plaintiffs have sought to add or assert claims. Accordingly, we are unable to predict whether new claims may be filed against us, or what effect any new claims could have on our pending cases. We are also unable to predict the nature of any new claims or the damages that may be sought if any new claims are filed.

We are involved in other 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 our financial position, results of operation or cash flows.

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. Our 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 bids to acquire our company. We are subject to the anti-takeover provisions of the Delaware corporate statute, which regulates 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.

As of March 15, 2004 our executive officers were as follows:

Executive Officers of the Registrant

Name	Age	Title
Paul L. Ruflin	50	President and Chief Executive Officer
John S. Cooper	48	Executive Vice President of Sales and Marketing
Russ J. Rudish	51	Executive Vice President of Services
John Depierro	67	Executive Vice President of Technology Solutions Group
Robert J. Colletti	45	Senior Vice President, Chief Financial Officer and Treasurer
John Gomez	39	Senior Vice President of Technology and Chief Technology Officer
T. Jack Risenhoover, II	38	Senior Vice President

Paul L. Ruflin has served as our president and chief executive officer since July 2002. Prior to joining us, Mr. Ruflin was chief operating officer of Cap Gemini Ernst & Young, North America, or CGE&Y. During his more than 24 years at CGE&Y, Mr. Ruflin also served in several other leadership capacities, including director of CGE&Y's health managed care consulting practice.

John S. Cooper has served as our executive vice president of sales since March 2002, and assumed responsibility for our marketing functions in January 2004. From October 2000 until March 2002, Mr. Cooper was chairman and chief executive officer of iMedium Inc., a marketing and sales-effectiveness solutions firm. From 1988 until 2000, Mr. Cooper was employed by Shared Medical Systems Corp., or SMS, where he held a number of sales-management positions, including vice president of eSolutions. In 2000, SMS was acquired by Siemens AG.

Russ J. Rudish has served as our executive vice president of services since November 2003. Prior to joining us, Mr. Rudish spent over 20 years at Ernst & Young LLP, before it sold its consulting practice to CGE&Y in May 2000. From April 2002 until September 2003, Mr. Rudish served as the national practice leader of CGE&Y's Health Provider Consulting Practice. In addition, from August 2000 to April 2002, Mr. Rudish served as regional director, northeast, for CGE&Y's Health Provider Consulting Practice.

John Depierro has served as executive vice president of our Technology Solutions Group since June 2002. From January 1999 to June 2002, Mr. Depierro served as a senior vice president of our former international division. From January 1997 to January 1999, Mr. Depierro served as the President of Sales for our Northeast Sales Region. Before joining Eclipsys, Mr. Depierro was president and founder of Medical Data Technology which we acquired in January 1997 as part of our acquisition of ALLTEL Healthcare Information Services, Inc.

Robert J. Colletti has served as our senior vice president and chief financial officer since August 2001. From June to August 2001, Mr. Colletti served as senior vice president of finance and chief accounting officer. From January 1997 to June 2001, Mr. Colletti served as our vice president of finance. Mr. Colletti joined Eclipsys in January 1997 as part of our acquisition of ALLTEL Healthcare Information Services, Inc.

John Gomez has served as our senior vice president and chief technology officer since August 2003. From October 2002 to January 2003, Mr. Gomez was a senior vice president and chief technology officer at WebMD Corporation. Prior to that, from February 2001 to October 2002 Mr. Gomez served as chief technology officer and senior vice president of strategic business development at Brill Media Holdings, an e-commerce and media publication company. From April 1998 through January 2001 Mr. Gomez was employed by Microsoft Corporation.

T. Jack Risenhoover, II has served as a senior vice president since March 2000. He was a vice president from February 1997 through March 2000. Mr. Risenhoover also served as secretary from February 1997 through January 2003, and as general counsel from February 1997 through March 2002.

Item 2. *Properties*

Our corporate offices are 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 Rosa, California; Alpharetta, Georgia; Atlanta, Georgia; Westchester, Illinois; Overland Park, Kansas; Rockville, Maryland; Boston, Massachusetts; Mountain Lakes, New Jersey; Albany, New York; Uniondale, New York; Malvern, Pennsylvania; Richmond (a suburb of Vancouver), British Columbia; and Grand Rapids, Michigan. These leases expire at various times through October 2013.

Item 3. *Legal Proceedings*

From July through September 2002, our company and three of its then current officers (Messrs. Robert J. Colletti, John T. Patton, Jr. and Harvey J. Wilson) were named in seven complaints filed by purported shareholders of our company in the United States District Court, Southern District of Florida, West Palm Beach Division, or the District Court. Each complaint sought certification as a class and monetary damages, and alleged that we and the named officers violated federal securities laws. We believe that the actions are without merit, and are conducting a vigorous defense.

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Separately, in October 2003, we were contacted by the attorneys for the lead plaintiffs who sought our consent to their filing of an amended complaint that would add new counts asserting new claims and a new class period due to our announced SunriseXA response time issues. We did not formally respond to their request, and have not yet seen any pleadings filed in which the lead plaintiffs have sought to add or assert claims. Accordingly, we are unable to predict whether new claims may be filed against us, or what effect any new claims could have on our pending cases. We are also unable to predict the nature of any new claims or the damages that may be sought if any new claims are filed.

We are involved in other 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 our financial position, results of operation or cash flows.

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 2003.

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.

	High	Low
2002		
First quarter	$17.85	$14.29
Second quarter	$19.17	$ 5.30
Third quarter	$ 9.20	$ 4.68
Fourth quarter	$ 6.69	$ 3.92
2003		
First quarter	$ 8.51	$ 5.23
Second quarter	$11.88	$ 6.85
Third quarter	$18.58	$10.05
Fourth quarter	$19.47	$ 8.72

Holders of Record

On March 10, 2004, the last reported sale price of our common stock on the Nasdaq National Market was $13.30 per share. Also as of March 10, 2004, we had approximately 195 stockholders of record.

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.

Shares Available Under Equity Compensation Plans

Information regarding securities authorized for issuance under equity compensation plans is provided under Item 12 — Security Ownership of Certain Beneficial Owners and Management elsewhere in this document.

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, along with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", that is included elsewhere in this document. Our statement of operations data for the years ended December 31, 2003, 2002 and 2001 and the balance sheet data at December 31, 2003 and 2002 are derived from, and are qualified by reference to, our audited consolidated financial statements, which appear elsewhere in this document. Our statement of operations data for the years ended December 31, 2000 and 1999 and the balance sheet data at December 31, 2001, 2000 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 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)				
	2003	2002	2001	2000	1999
Statement of Operations Data:					
Total revenues	$ 254,679	$ 218,068	$ 239,676	$ 221,318	$ 254,169
Costs and expenses:					
Costs of revenues	161,013	131,314	137,826	155,503	151,469
Sales and marketing	69,734	53,175	42,698	40,143	36,316
Research and development	58,306	46,228	37,034	37,382	44,151
General and administrative	13,528	12,434	10,278	10,380	11,426
Depreciation and amortization	10,492	8,531	13,900	13,442	14,706
Pooling and transaction costs	—	—	(472)	1,900	1,648
Restructuring charge	—	—	—	1,198	5,133
Total costs and expenses	313,073	251,682	241,264	259,948	264,849
Loss from operations	(58,394)	(33,614)	(1,588)	(38,630)	(10,680)
Interest income, net	2,430	4,016	5,996	1,075	1,235
Other income, net	—	—	—	3,596	—
(Loss) income before income taxes	(55,964)	(29,598)	4,408	(33,959)	(9,445)
Provision for income taxes	—	165	—	—	—
Net (loss) income	$ (55,964)	$ (29,763)	$ 4,408	$ (33,959)	$ (9,445)
Basic net (loss) income per common share	$ (1.23)	$ (0.67)	$ 0.10	$ (0.92)	$ (0.27)
Diluted net (loss) income per common share	$ (1.23)	$ (0.67)	$ 0.09	$ (0.92)	$ (0.27)
Basic weighted average common shares outstanding	45,404,754	44,710,754	43,243,512	36,765,975	34,803,934
Diluted weighted average common shares outstanding	45,404,754	44,710,754	46,795,361	36,765,975	34,803,934

	Year Ended December 31, (in thousands)				
	2003	2002	2001	2000	1999
Balance Sheet Data:					
Cash and cash equivalents	$151,683	$183,500	$168,942	$ 20,799	$ 33,956
Working capital	79,553	140,368	174,951	17,985	33,103
Total assets	295,783	301,197	300,494	156,112	202,935
Debt, including current portion	—	—	—	1,491	—
Stockholders' equity	143,153	192,597	218,201	73,404	101,301

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

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 in Item 1 above under the caption "Certain Factors That May Affect Future Operating Results," among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

The following should be read in conjunction with our consolidated financial statements, including the notes thereto, which are included elsewhere in this document.

Eclipsys is a healthcare information technology company. We develop and license our proprietary software to hospitals. Our software allows them to automate many of the key clinical, administrative and financial functions that they require. Our software is designed to improve patient care and patient satisfaction for our customers, and allow them to reduce their operating costs and enhance their revenues.

Background

We were founded in December 1995 to commercialize an integrated clinical and financial information software system for use by hospitals. Historically, hospitals have operated in a paper environment. This environment has resulted in patient safety concerns, including avoidable medical errors, duplicative and unnecessary procedures, inefficient use of limited resources, and an inability to track, bill and collect for services rendered. Our software is designed to address these issues by turning data into information that can be easily used, accessed by or provided to the right person, at the right time, in the right place at a hospital. This enables hospital employees to redesign business processes, deliver higher quality care at lower cost, and receive expedited payment for services rendered. Our software helps to improve collaboration within a hospital across all venues of care.

We initially grew through a series of strategic acquisitions which were completed in 1999. Our acquisitions were focused on acquiring strong customer bases and advanced software pertaining to the healthcare industry.

Our acquisitions are summarized in the following table:

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

In addition to these acquisitions, in 1996 we licensed certain intellectual property on an exclusive basis from Partners HealthCare System, Inc., or Partners. This intellectual property related to clinical workflows including order management and clinical decision support. The Partners technology has been incorporated within our product offerings.

Product Development

Since June 1999, we have primarily focused on taking the intellectual property that we acquired through acquisitions and re-expressing it on a common platform to provide integrated software to our customers. In 1999, we announced the general availability of SCM, the first version of our Sunrise suite of software. SCM provides advanced knowledge-based clinical decision-support capabilities including computerized physician order entry.

In 2001, we announced our SunriseXA strategy. This strategy is to migrate our Sunrise suite of products to an open architecture and platform. SunriseXA's architecture is built on Microsoft's .NET Framework, Microsoft SQL Server and the Microsoft Windows family of operating systems. In 2002 and 2003, we announced the general availability of certain components of SunriseXA.

In October 2003, we identified and announced certain response time issues within components of SunriseXA. Although some of our SunriseXA software components had been implemented in and were working at some customer sites, we determined that the software did not produce acceptable response times for the complex, high-volume hospital environments. To address the issue, we implemented a strategy to allow SunriseXA customers to continue their deployment of SunriseXA, while at the same time allowing us to continue our development of advanced SunriseXA components. This strategy replaces the affected SunriseXA components with certain components from our SCM product. The response time issue resulted in a product delivery delay for certain of our advanced SunriseXA functionality. The announcement of these issues also impacted the implementation schedules for a number of our customers. We believe that this delay will have a temporary effect on our sales cycle for the affected SunriseXA applications.

In connection with the response time issue, we recorded a $1.2 million write-down of capitalized software development costs to net realizable value for certain SunriseXA components in the third quarter of 2003. The write-down was included in the costs of systems and services revenue. Also, we believe that the correction of the response time issue may be covered by our warranty to our customers, and we intend to remediate the problem. Accordingly, we established a warranty reserve of $4.4 million in the fourth quarter of 2003 related to the estimated costs associated with this issue. The charge reflects our estimate of warranty-related costs that include implementation and third-party costs for customers affected by the response time issue. Actual warranty costs could differ materially from management's estimate. Professional services revenue and cash flows will be negatively impacted during the first half of 2004 as we deliver services and third-party costs related to this issue.

Operational Initiatives

During 2001, management made two strategic decisions that significantly impacted our operating results. First, we substantially increased our gross research and development spending, which includes research and development expenses and capitalized software development costs. This decision was made to enable us to bring components of our SunriseXA product line to market more rapidly. Second, we invested heavily in sales and marketing to enhance market awareness surrounding the Company and its products and services. We did this to capitalize on perceived market demand for our products and services. Additionally, in 2002, we moved aggressively to change our contracting model, offering customers payment terms over time compared to our historical licensing model in which software fees were paid in advance. We took this approach to meet the needs of our customers, by matching the timing of their payments more closely to the value that we deliver to them. We believe that this new contracting model makes purchase decisions easier for our customers.

The change in our contracting model has had a material affect on our business. Most notably, our revenues, gross margins, and cash flows have been affected by our adoption of this approach. Because customers now pay us over time for software and services, our revenue is spread over a longer time period, while a significant portion of our operating expenses remain relatively fixed. For example, in 2003, our gross margins, operating margins, and cash flow from operating activities were negatively impacted from lower upfront software payments. However, we believe that this new contracting model will provide for more predictable revenues on a year over year basis. We believe that over time, our margins will return to historical levels.

Based upon the foregoing, we consumed cash in 2003 because cash collections under our new contracting method from new contract signings was not sufficient to offset our higher operating expenses. To fund these initiatives, we used a portion of our cash on hand. During 2004, we expect to continue with these initiatives.

We believe that the most significant issues that we face in 2004 relate to the delivery of SunriseXA 3.5, which we expect to release in mid 2004, as well as our ability to sign new business.

Critical Accounting Policies

We believe there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amount of revenue and other significant areas involving management's judgments and estimates. On an ongoing basis, management evaluates and adjusts its estimates and judgments, if necessary. These significant accounting policies relate to revenue recognition, allowance for doubtful accounts, software development and our warranty reserve. Please refer to Note 2 to the consolidated financial statements for further discussion of our accounting policies.

Revenue Recognition

We generally contract 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. We evaluate revenue recognition on a contract-by-contract basis as the terms of each arrangement vary. The evaluation of our contractual arrangements often requires judgments and estimates that affect the timing of revenue recognized in our statements of operations. Specifically, we may be required to make judgments about:

- whether the fees associated with our products and services are fixed or determinable;
- whether collection of our fees is reasonably assured;
- whether professional services are essential to the functionality of the related software product;
- whether we have the ability to make reasonably dependable estimates in the application of the percentage-of-completion method; and
- whether we have verifiable objective evidence of fair value for our products and services.

We recognize revenues in accordance with the provisions of Statement of Position, or SOP, No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-9, Staff Accounting Bulletin, or SAB, 101, "Revenue Recognition in Financial Statements" (which has been superseded by SAB 104) and Emerging Issues Task Force, or EITF 00-21, "Revenue Arrangements with Multiple Deliverables." SOP 97-2 and SAB 101, as amended, require among other matters, that there be a signed contract evidencing an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. For those license arrangements in which the fee is not considered fixed or determinable, the license revenue is recognized as payments become due. For arrangements where vendor specific objective evidence, or VSOE, only exists for all undelivered elements, we account for the delivered elements in accordance with the "residual method" prescribed by SOP 98-9.

For software license arrangements that are bundled with services and maintenance where services are considered essential to the functionality of the software, 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. 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. 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. 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.

We also enter into subscription arrangements that 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 7 to 10 years. Payments are due annually, quarterly or monthly over the arrangement term. For these arrangements, revenue is recognized monthly over the term of the agreement. In these arrangements, we capitalize related direct costs consisting of third party software costs and direct software implementation costs. These costs are amortized over the term of the arrangement.

If other judgments or assumptions were used in the evaluation of our revenue arrangements, the timing and amounts of revenue recognized may have been significantly different.

Allowance for Doubtful Accounts

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 deteriorate 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.

Capitalized Software Development Costs

We capitalize software development costs in accordance with FASB Statement No. 86 "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." We capitalize software development costs incurred subsequent to establishing technological feasibility of the software being developed. These costs include salaries, benefits, consulting and other directly related costs incurred in connection with coding and testing software products. Capitalization ceases when the products are generally released for sale to customers, at which time amortization of the capitalized costs begins. At each balance sheet date, we perform a detailed assessment of our capitalized software development costs 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.

On October 20, 2003, we announced response time issues with some components of SunriseXA, the newest version of our Sunrise suite of products. To address the issue, we announced a strategy to allow our SunriseXA customers to continue their deployment of SunriseXA, while enabling us to continue the development of our advanced SunriseXA components. Our strategy is to replace the affected SunriseXA components with certain components from our SCM product. As a result, in 2003 we recorded a $1.2 million write-down of capitalized software development costs for certain SunriseXA components to net realizable value. The write-down is included in the cost of systems and services revenues.

Warranty Reserve

The agreements that we use to license our software include a limited warranty. The warranty provides that our software, in its unaltered form, will perform substantially in accordance with the related documentation. Through September 30, 2003, we did not incur any material warranty costs related to our products. Due to the response time issues that we identified in October 2003, we recorded a warranty reserve of $4.4 million at December 31, 2003. Warranty costs are charged to costs of systems and services revenues when they are probable and reasonably estimable. In determining this warranty reserve, we used significant judgments and estimates for the additional professional service hours and third party costs that will be necessary to remedy this issue on a customer-by-customer basis. The timing and amount of our warranty reserve could have been different if we had used other judgments or assumptions in our evaluation.

Results of Operations

Revenues

We derive revenues from licensing our software and the delivery of services including software and hardware maintenance; professional services (including implementation, integration, training and consulting); remote hosting; outsourcing; network services; and the sale of computer hardware. Our products and services are generally sold to customers under contracts that range in duration from 3 to 7 years, and 10 years for some outsourcing contracts.

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 are the amortization of capitalized software development costs, acquired technology and a network services intangible asset. Capitalized software development costs are amortized generally over three years on a straight-line basis commencing upon general release of the related product, or are based on the ratio that current revenues bear to total anticipated revenues for the applicable product. Acquired technology is amortized over three to five years based upon the estimated economic life of the underlying asset, and the remaining balance became fully amortized in March 2003. Cost of revenues related to hardware sales includes only our cost to acquire the hardware from the manufacturer.

During the third quarter of 2003, we recorded a write-down of capitalized software costs to net realizable value of certain components of our SunriseXA software in the amount of $1.2 million. This related to the SunriseXA response time issue discussed above. Additionally, we recorded a warranty reserve of $4.4 million during the fourth quarter of 2003 related to anticipated costs of our SunriseXA response time issue. This warranty reserve reflects an estimate of implementation and third party costs for certain customers. The write-down and warranty reserve are included in the costs of systems and services revenues.

Sales and Marketing

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

Research and Development

Research and development expenses consist primarily of salaries, benefits and related overhead, as well as consultants for the design, development and testing of new products. We capitalize certain software development costs subsequent to attaining technological feasibility. These costs are amortized as an element of the costs 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 3 to 7 years, and may reach 10 years for outsourcing contracts. Acquisition-related intangible assets, which primarily consisted of the value of ongoing customer relationships and goodwill, have been amortized based upon their estimated economic lives at the time of the acquisition, and vary among acquisitions. Our acquired customer relationships became fully amortized in January of 2002. 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 for goodwill as of December 31, 2001. On at least an annual basis, we conduct an impairment review of our remaining goodwill balance. As of December 31, 2003, there was no impairment of the remaining goodwill balance.

Taxes

As of December 31, 2003, we had net operating loss carryforwards for federal income tax purposes of $226.5 million. The carryforwards expire in varying amounts through 2023 and are subject to certain restrictions. We did not record a benefit for the resulting net deferred tax asset at December 31, 2001, 2002 or 2003, because we believed it was more likely than not that we would not realize our net deferred tax asset. Accordingly, we have recorded a valuation allowance against our total net deferred tax asset.

Statement of Operations
(in thousands, except per share data)

	2003	2003 % of Total Revenue	2002	2002 % of Total Revenue	Change $	Change %
Revenues:						
Systems and services	$233,971	91.9%	$203,218	93.2%	$ 30,753	15.1%
Hardware	20,708	8.1	14,850	6.8	5,858	39.4
Total revenues	254,679	100.0	218,068	100.0	36,611	
Costs and expenses:						
Costs of systems and services revenues	143,761	56.4	119,044	54.6	24,717	20.8
Costs of hardware revenues	17,252	6.8	12,270	5.6	4,982	40.6
Sales and marketing	69,734	27.4	53,175	24.4	16,559	31.1
Research and development	58,306	22.9	46,228	21.2	12,078	26.1
General and administrative	13,528	5.3	12,434	5.7	1,094	8.8
Depreciation and amortization	10,492	4.1	8,531	3.9	1,961	23.0
Total costs and expenses	$313,073	122.9%	$251,682	115.4%	$ 61,391	
Loss from operations	(58,394)	(22.9)	(33,614)	(15.4)	(24,780)	
Interest income, net	2,430	1.0%	4,016	1.8%	(1,586)	(39.5)%
Loss before income taxes	(55,964)		(29,598)		(26,366)	
Provision for income taxes	—		165		(165)	
Net loss	$(55,964)		$(29,763)		$(26,201)	
Basic net loss per share	$ (1.23)		$ (0.67)		$ (0.56)	
Diluted net loss per share	$ (1.23)		$ (0.67)		$ (0.56)	

Year Ended December 31, 2003 compared to Year Ended December 31, 2002

Total revenues for the year ended December 31, 2003 increased $36.6 million, or 16.8%, to $254.7 million, from $218.1 million for 2002. Systems and services revenues increased $30.8 million, or 15.1%, to $234.0 million, for the year ended December 31, 2003, from $203.2 million for 2002. The increase in systems and services revenues in 2003 was primarily a result of increases in revenue generated from arrangements, which generally provide for revenue recognition on a monthly basis. These revenues include license fees, remote hosting services, software and hardware maintenance fees, and outsourcing services. The overall increase in revenues is a result of higher volumes of new contracts. The new contracts consisted of a significantly higher proportion of contracts executed for which revenues are recognized on a monthly basis. We expect these contracts will continue to represent a significant, and potentially growing, proportion of our new contracts. However, because these contracts are characterized by payments being spread over a longer period of time compared to traditional licensing arrangements, we expect cash flows will continue to be negatively impacted in the near future. Additionally, professional services and third party revenues increased as a result of a higher volume of new contracts.

Hardware revenues increased approximately $5.9 million, or 39.4%, to $20.7 million, for the year ended December 31, 2003, from $14.9 million for 2002. The increase in hardware revenues in 2003 was primarily due to increased shipments during the third, and fourth quarters of 2003 for business contracted during the second, third, and fourth quarters. We expect hardware revenue to continue to fluctuate in future periods.

Cost of systems and services revenues increased approximately $24.7 million, or 20.8%, to $143.8 million, for the year ended December 31, 2003, compared to $119.0 million for 2002. Gross margins on systems and services revenues were 38.6% for the year ended December 31, 2003 compared to 41.4% for 2002. The increase in cost of systems and services revenues was related to several factors, including:

- the warranty reserve for anticipated costs, and the write-down of capitalized software development costs to net realizable value, both related to SunriseXA response time issue;
- higher amortization of capitalized software development costs related to the release of SunriseXA;
- higher third-party costs including royalties and consulting;
- higher costs associated with providing our outsourcing, remote hosting and networking services; and
- increased payroll and related costs associated with providing our implementation and integration services related to higher volumes of new contracts.

These increases were partially offset by lower amortization of acquired technology, and due to some assets becoming fully amortized during 2002 and the first quarter of 2003.

Cost of hardware revenues increased $5.0 million, or 40.6%, to $17.3 million, for the year ended December 31, 2003, compared to $12.3 million for 2002. The increase in cost of hardware revenues for 2003 was primarily attributable to the increase in hardware revenues discussed above. Gross margin on hardware revenues was relatively consistent at 16.7% in 2003 and 17.4% in 2002.

Sales and marketing expenses increased $16.6 million, or 31.1%, to $69.7 million, for the year ended December 31, 2003, from $53.2 million for 2002. The increase in sales and marketing expenses was related to increased payroll and related costs due to our initiative to significantly expand the size of our sales and marketing organization, including approximately $2.8 million higher commissions resulting from increased sales volume. We expect that sales and marketing will continue at these higher expense levels in the future.

Research and development expenses increased $12.1 million, or 26.1% to $58.3 million, for the year ended December 31, 2003, compared to $46.2 million for 2002. Gross spending on research and development, consisting of research and development expenses and capitalized software development costs, increased approximately $21.1 million primarily due to our initiative to accelerate the migration of our products onto the Microsoft .NET platform. In 2003, under this initiative, we increased the number of employees in our research and development organization, and increased the use of outside consultants. The percentage of research and development expenditures capitalized for the year ended December 31, 2003 was 23.8%, or $18.2 million, compared to 16.0%, or $8.8 million, for 2002. The percentage of research and development costs capitalized increased as a result of the incremental expenses incurred during the second, third and fourth quarters of 2003 for coding and testing of two releases of SunriseXA products that were technologically feasible, one of which was generally released during the third quarter. As discussed above, amortization of capitalized software development costs, which is included in cost of systems and services revenues, increased by approximately $1.9 million, to $8.2 million for the year ended December 31, 2003, compared to $6.3 million for 2002.

General and administrative expenses increased approximately $1.1 million, or 8.8% to $13.5 million, for the year ended December 31, 2003, compared to $12.4 million for 2002. The increase in general and administrative expenses was primarily due to higher insurance premiums and legal costs.

Depreciation and amortization increased $2.0 million, or 23.0%, to $10.5 million, for the year ended December 31, 2003, from $8.5 million for 2002. The increase was primarily the result of investments in computer hardware and software to expand our research and development infrastructure and to increase capacity at our Technology Solutions Center to address the higher volume of remote hosting services. As a result of continuing investments, we expect depreciation and amortization to continue to increase in the future.

Interest income decreased $1.6 million to $2.4 million for the year ended December 31, 2003, from $4.0 million for 2002. This decrease in interest income was primarily due to a decline in yields, related to changes in general economic conditions. A decline in the average combined balance in cash and cash equivalents and marketable securities during the third and fourth quarters of 2003 also contributed to the decrease in interest income.

As a result of these factors, we had a net loss of $56.0 million for the year ended December 31, 2003, compared to a net loss of $29.8 million for the year ended December 31, 2002.

Statement of Operations
(in thousands, except per share data)

	2002	2002 % of Total Revenue	2001	2001 % of Total Revenue	Change $	Change %
Revenues:						
Systems and services	$203,218	93.2%	$223,171	93.1%	$(19,953)	(8.9)%
Hardware	14,850	6.8	16,505	6.9	(1,655)	(10.0)
Total revenues	218,068	100.0	239,676	100.0	(21,608)	
Costs and expenses:						
Costs of systems and services revenues	119,044	54.6	124,255	51.8	(5,211)	4.2
Costs of hardware revenues	12,270	5.6	13,571	5.7	(1,301)	9.6
Sales and marketing	53,175	24.4	42,698	17.8	10,477	(24.5)
Research and development	46,228	21.2	37,034	15.5	9,194	(24.8)
General and administrative	12,434	5.7	10,278	4.3	2,156	(21.0)
Depreciation and amortization	8,531	3.9	13,900	5.8	(5,369)	38.6
Pooling and transaction costs	—	—	(472)	(0.2)	472	100.0
Total costs and expenses	$251,682	115.4%	$241,264	100.7%	$ 10,418	
Loss from operations	(33,614)	(15.4)	(1,588)	(0.7)	(32,026)	
Interest income, net	4,016	1.8%	5,996	2.5%	(1,980)	(32.5)%
(Loss) income before income taxes	(29,598)		4,408		(34,006)	
Provision for income taxes	165		0		—	
Net (loss) income	$(29,763)		$ 4,408		$(34,171)	
Basic net (loss) income per share	$ (0.67)		$ 0.10		$ (0.77)	
Diluted net (loss) income per share	$ (0.67)		$ 0.09		$ (0.76)	

Year Ended December 31, 2002 compared to Year Ended December 31, 2001

Total revenues for the year ended December 31, 2002 decreased $21.6 million, or 9.0%, to $218.1 million, from $239.7 million for 2001. Systems and services revenues decreased $20.0 million, or 8.9%, to $203.2 million for the year ended December 31, 2002, from $223.2 million for 2001. The decrease in systems and services revenues in 2002 was primarily a result of minimal software license fees in the third and fourth quarters of 2002. The decrease in license fees was the result of a shortfall in new sales bookings during the third quarter of 2001 and the second quarter of 2002, which negatively impacted revenues during the last three quarters of 2002. Additionally, the decrease was related to a change in contracting mix in the last two quarters of 2002, in which we began to predominantly contract under arrangements that provide for revenue to be recognized on a monthly basis as compared to our historical contracting methods. Since the third quarter of 2002, the majority of our contracts have been executed under these types of arrangements. As we continue to contract under these arrangements, we expect our operating results to reflect lower revenues and cash flows in the short-term. In addition, we believe that some of our customers and prospects delayed their decisions to purchase our products in anticipation of the initial SunriseXA releases in 2002.

Furthermore, in the fourth quarter of 2001, we began an initiative to expand our sales and marketing functions. Under this initiative, our sales and marketing team grew from approximately 190 persons at December 31, 2001, to more than 260 persons at December 31, 2002, including the addition of a new executive vice president responsible for all sales activities and other key management positions. This program was implemented to increase the market presence of our sales organization and to enhance the market awareness of our company, its products and services. During this expansion, our sales and marketing organization experienced considerable change and administrative disruption, which negatively impacted the closing of new contracts during the second quarter of 2002.

Hardware revenues decreased approximately $1.7 million, or 10.0%, to $14.9 million, for the year ended December 31, 2002, from $16.5 million for 2001. The decrease in hardware revenues in 2002 was primarily due to decreased shipments under contracts entered into in 2001 and 2002. The lower shipments were primarily attributable to a higher percentage of new contracts being remotely hosted as well as the shortfall in bookings during the second quarter of 2002.

Cost of systems and services revenues decreased approximately $5.2 million, or 4.2%, to $119.0 million, for the year ended December 31, 2002, compared to $124.3 million for 2001. These costs decreased primarily due to lower amortization of acquisition related acquired technology and network services assets, which amounted to $16.6 million for 2001, compared to $2.9 million for 2002, as a result of certain assets becoming fully amortized. These reductions were partially offset by various other factors including:

- higher software royalties;
- higher payroll related costs, in particular medical insurance;
- higher amortization of capitalized software development costs as a result of certain new products, such as new releases of our Sunrise suite, including SunriseXA, becoming available for general release; and
- incremental costs of $1.6 million related to additional obligations arising from contracts assumed in prior acquisitions.

Cost of hardware revenues decreased $1.3 million, or 9.6%, to $12.3 million, for the year ended December 31, 2002, compared to $13.6 million for 2001. The decrease in cost of hardware revenues for 2002 was directly attributable to the decreased shipments of hardware related the items discussed above. Gross margins on hardware revenues was relatively consistent at 17.4% in 2002 and 17.8% in 2001.

Sales and marketing expenses increased $10.5 million, or 24.5%, to $53.2 million for the year ended December 31, 2002, from $42.7 million for 2001. The increase in sales and marketing expenses was primarily due to the program we initiated, during the fourth quarter of 2001, to significantly expand the size of our sales and marketing organization. This program continued in 2003. Additionally, there was an increase in expenditures for marketing events held in 2002, as compared to 2001.

Research and development expenses increased $9.2 million, or 24.8% to $46.2 million for the year ended December 31, 2002, compared to $37.0 million for 2001. The increase in research and development expenses was due primarily to an initiative we implemented in the fourth quarter of 2001. This initiative was designed to accelerate the migration onto the Microsoft .NET platform of our SunriseXA products. This initiative is expected to result in continued heightened research and development expenses. The percentage of gross research and development expenditures capitalized for the year ended December 31, 2002 was 16.0%, or $8.8 million, compared to 15.7%, or $6.9 million, for 2001. As discussed above, amortization of capitalized software development costs, which is included as a component of cost of systems and services revenues, increased by approximately $1.8 million, to $6.3 million for the year ended December 31, 2002, compared to $4.5 million for 2001.

General and administrative expenses increased approximately $2.2 million, or 21.0% to $12.4 million, for the year ended December 31, 2002, compared to $10.3 million for the year ended 2001. The increase in general and administrative expenses was the result of higher legal expenses, primarily related to our shareholder litigation, and higher insurance costs.

Depreciation and amortization decreased $5.4 million, or 38.6%, to $8.5 million, for the year ended December 31, 2002, from $13.9 million for 2001. The decrease was primarily the result of lower acquisition-related amortization, which amounted to $0.2 million in 2002, compared to $6.7 million in 2001. This decline related to the completion of amortization of certain intangibles, which became fully amortized during the fourth quarter of 2001, as well as the adoption of SFAS 142, which eliminated the amortization of goodwill. The decrease in amortization was partially offset by higher depreciation of fixed assets purchased during 2001 and 2002.

Pooling and transaction costs in 2001 for integration pertaining to one of our acquisitions was approximately $0.5 million less than previously estimated.

Interest income decreased $2.0 million to $4.0 million for the year ended December 31, 2002, from $6.0 million for 2001. This decrease was a result of significantly lower interest earned on our cash and cash equivalents in 2002, compared to 2001, due to lower interest rates. The effect of lower interest rates was only partially offset by higher average balances of cash and cash equivalents throughout 2002, compared to 2001. Cash and cash equivalents increased during 2002 primarily from cash generated from operating activities.

As a result of these factors, we had a net loss of $29.8 million for the year ended December 31, 2002, compared to a net income of $4.4 million for the year ended December 31, 2001.

Liquidity and Capital Resources

During 2003, operating activities used $3.4 million of cash, primarily as a result of heightened research and development activities, costs related to the expansion of our sales and marketing forces and the impact of our new contract arrangements. Investing activities used $34.7 million of cash, consisting of $18.2 million of capitalized software development costs and $16.0 million for the procurement of property and equipment. The property and equipment was primarily related to activities at our Technology Solutions Center for the expansion of our remote hosting function and activities in our research and development area.

As of December 31, 2003, our principal source of liquidity was our cash and cash equivalents balance of $151.7 million. It is likely that we will continue to have negative cash flows in the near future as we continue our development efforts in connection with our SunriseXA initiative. Additionally, our new contracting method will result in lower cash flows during the early stages of a customer contract. We expect this will continue to impact our short term cash position. Furthermore, we expect that capital expenditures will continue at levels similar to or greater than 2003 as we continue to invest in our Technology Solutions Center.

Our future liquidity requirements will depend on a number of factors, including the timing and level of our new sales volumes, the cost of our development efforts related to SunriseXA, the success and market acceptance of our future product releases, and other related items. As of December 31, 2003, we did not have any material commitments for capital expenditures. We believe that our current cash and marketable securities balances, combined with anticipated cash collections from our customers will be adequate to meet our liquidity requirements through 2004.

Contracts and Commitments

The following table provides information related to our contractual cash obligations under various financial and commercial agreements as of December 31, 2003 (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
Operating Leases	$36,694	$10,632	$14,010	$6,658	$5,394
Unconditional Purchase Obligations	17,528	7,840	9,688	—	—
Total Contractual Cash Obligation	$54,222	$18,472	$23,698	$6,658	$5,394

The unconditional purchase obligations consist of minimum purchase commitments for telecommunication services, computer equipment, maintenance, consulting, airplane charters and other commitments. The contract for airplane charters is discussed in further detail in Note 9 to the consolidated financial statements, "Related Party Transactions" included herein.

New Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation 46, "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities that possess certain characteristics. The interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, or VIE, the assets, liabilities and results of operations of the VIE must be included in the consolidated financial statements with those of the business enterprise. This interpretation applies immediately to each VIE created after January 31, 2003 and to each VIE in which an enterprise obtains an interest after that date. In December 2003, the FASB published a revision to FIN 46 or FIN 46R, to clarify some of the provisions of FIN 46 and exempt certain entities from its requirements. Under FIN 46R, a legal entity is considered a VIE with some exceptions if specific criteria are met including whether it has sufficient equity at risk to finance its own activities without relying on financial support from other parties. Additional criteria must be applied to determine if this condition is met or if the equity holders, as a group, lack any one of the three stipulated characteristics of a controlling financial interest. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary of the VIE must consolidate it. Even if the reporting entity is not required to consolidate a VIE, then certain disclosures must be made about the VIE if the reporting entity has a significant variable interest. The effective date of the interpretation was modified under FIN 46R. A reporting entity is required to apply the provisions of FIN 46R to each VIE that previously was subject to certain previously issued special purpose entity, or SPE, accounting pronouncements for all reporting periods after December 14, 2003. For each VIE, a reporting entity is required to adopt the provisions of FIN 46R for all reporting periods after March 15, 2004. We believe FIN 46R will not impact our financial position or results of operations.

In December 2003, the Staff of the Securities and Exchange Commission issued SAB 104, Revenue Recognition, which supersedes SAB 101, Revenue Recognition in Financial Statements. The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element arrangements, superseded as a result of the issuance of EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables (EITF 00-21). The guidance contained in SAB 104 reflects the issuance of EITF 00-21, but the revenue recognition principles remain largely unchanged. As we have already incorporated EITF 00-21 and SAB 101, into our revenue recognition policies, the adoption of SAB 104 did not have a significant impact on our financial statements.

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, 2003, foreign currency fluctuations have not had a material impact on our financial position or results of operations.

Item 8. *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements:

Financial Statements:

Financial Statement Schedules:

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 CERTIFIED PUBLIC ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the accompanying index under Item 8 present fairly, in all material respects, the financial position of Eclipsys Corporation and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 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 under Item 8 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.

As discussed in Note 2, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 5, 2004

ECLIPSYS CORPORATION

Consolidated Balance Sheets
(in thousands, except share and per share data)

	December 31, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$151,683	$183,500
Accounts receivable, net of allowance for doubtful accounts of $4,807 and $3,412 at December 31, 2003 and 2002, respectively	54,903	46,822
Inventory	530	656
Prepaid expenses	13,989	15,393
Other current assets	1,004	1,528
Total current assets	222,109	247,899
Property and equipment, net	32,304	26,800
Capitalized software development costs, net	25,260	16,375
Acquired technology, net	—	267
Goodwill, net	454	454
Other assets	15,656	9,402
Total assets	$295,783	$301,197
Liabilities and Stockholders' Equity		
Current liabilities:		
Deferred revenue	$ 91,782	$ 79,235
Accounts payable	18,415	3,364
Accrued compensation costs	17,189	14,442
Other current liabilities	15,169	10,490
Total current liabilities	142,555	107,531
Deferred revenue	9,390	843
Other long-term liabilities	684	226
Commitments and contingencies (See Note 7)		
Stockholders' Equity:		
Common stock, $0.01 par value, 200,000,000 shares authorized; issued and outstanding, 45,976,655 and 45,088,872	460	451
Additional paid-in capital	411,634	405,380
Unearned stock compensation	(795)	(1,021)
Accumulated deficit	(267,778)	(211,814)
Accumulated other comprehensive income	(367)	(399)
Total stockholders' equity	143,154	192,597
Total liabilities and stockholders' equity	$295,783	$301,197

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, 2003	2002	2001
Revenues:			
Systems and services	$ 233,971	$ 203,218	$ 223,171
Hardware	20,708	14,850	16,505
Total revenues	254,679	218,068	239,676
Costs and expenses:			
Costs of systems and services revenues	143,761	119,044	124,255
Costs of hardware revenues	17,252	12,270	13,571
Sales and marketing	69,734	53,175	42,698
Research and development	58,306	46,228	37,034
General and administrative	13,528	12,434	10,278
Depreciation and amortization	10,492	8,531	13,900
Pooling and transaction costs	—	—	(472)
Total costs and expenses	313,073	251,682	241,264
Loss from operations	(58,394)	(33,614)	(1,588)
Interest income, net	2,430	4,016	5,996
(Loss) income before income taxes	(55,964)	(29,598)	4,408
Provision for income taxes	—	165	—
Net (loss) income	$ (55,964)	$ (29,763)	$ 4,408
Net (loss) income per share:			
Basic net (loss) income per common share	$ (1.23)	$ (0.67)	$ 0.10
Diluted net (loss) income per common share	$ (1.23)	$ (0.67)	$ 0.09
Basic weighted average common shares outstanding	45,404,754	44,710,754	43,243,512
Diluted weighted average common shares outstanding	45,404,754	44,710,754	46,795,361

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, 2003	2002	2001
Operating activities:			
Net (loss) income	$ (55,964)	$ (29,763)	$ 4,408
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	21,902	19,576	36,472
Write-off of capitalized software	1,200	—	—
Provision for bad debts	2,625	2,205	4,305
Loss on sale of marketable securities	424	—	—
Stock compensation expense	226	134	144
Changes in operating assets and liabilities:			
Accounts receivable	(10,706)	16,443	(6,487)
Inventory	126	11	202
Other current assets	1,928	1,503	(11,570)
Other assets	(9,232)	(4,203)	(684)
Deferred revenue	21,094	21,233	7,617
Other current liabilities	22,477	5,547	(5,613)
Other long-term liabilities	458	(473)	(928)
Total adjustments	52,522	61,976	23,458
Net cash (used in) provided by operating activities	(3,442)	32,213	27,866
Investing activities:			
Purchases of property and equipment	(15,997)	(12,857)	(11,601)
Purchase of marketable securities	(73,785)	—	—
Proceeds from sale of marketable securities	73,361	—	—
Capitalized software development costs	(18,249)	(8,823)	(6,876)
Net cash used in investing activities	(34,670)	(21,680)	(18,477)
Financing activities:			
Payments on borrowings	—	—	(1,491)
Sale of common stock	—	—	123,231
Exercises of stock options	3,554	1,470	14,683
Employee stock purchase plan	2,709	2,552	2,498
Net cash provided by financing activities	6,263	4,022	138,921
Effect of exchange rates on cash and cash equivalents	32	3	(167)
Net (decrease) increase in cash and cash equivalents	(31,817)	14,558	148,143
Cash and cash equivalents — beginning of year	183,500	168,942	20,799
Cash and cash equivalents — end of year	$ 151,683	$ 183,500	$ 168,942
Cash paid for interest	$ —	$ —	$ 51
Cash paid for income taxes	$ 155	$ 110	$ 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		Additional Paid-in Capital	Unearned Stock Compensation	Accumulated Deficit	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount						
Balance at December 31, 2000	37,136,121	$371	$259,903	$ (176)	$(186,459)		$(235)	$ 73,404
Exercise of stock options	1,317,632	15	14,668					14,683
Employee stock purchase plan	178,660		2,498					2,498
Public offering	5,750,000	58	123,173					123,231
Compensation expense recognized				144				144
Comprehensive income:								
Net income					4,408	$ 4,408		4,408
Foreign currency translation adjustment						(167)	(167)	(167)
Other comprehensive income						(167)		
Comprehensive income						$ 4,241		
Balance at December 31, 2001	44,382,413	$444	$400,242	$ (32)	$(182,051)		$(402)	$218,201
Exercise of stock options	190,917	2	1,468					1,470
Employee stock purchase plan	365,542	4	2,548					2,552
Issuance of restricted stock	150,000	1	1,122	(1,123)				—
Compensation expense recognized				134				134
Comprehensive income:								
Net loss					(29,763)	(29,763)		(29,763)
Foreign currency translation adjustment						3	3	3
Other comprehensive income						3		
Comprehensive loss						$(29,760)		
Balance at December 31, 2002	45,088,872	$451	$405,380	$(1,021)	$(211,814)		$(399)	$192,597
Exercise of stock options	430,132	4	3,550					3,554
Employee stock purchase plan	457,651	5	2,704					2,709
Compensation expense recognized				226				226
Comprehensive income:								
Net loss					(55,964)	(55,964)		(55,964)
Foreign currency translation adjustment						32	32	32
Other comprehensive income						32		
Comprehensive loss						$(55,932)		
Balance at December 31, 2003	45,976,655	$460	$411,634	$ (795)	$(267,778)		$(367)	$143,154

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

ECLIPSYS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Eclipsys is a healthcare information technology company. We develop and license our proprietary software to hospitals. Our software allows them to automate many of the key clinical, administrative and financial functions that they require. Among other things, our software enables physicians and nurses to check on a patient's condition; order patient tests; review test results; monitor a patient's medications; and provide alerts to changes in a patient's condition. Our software also enables hospitals to admit patients; maintain patient records; create invoices for billing patients or insurance companies; control inventories; effect cost accounting; schedule doctor's visits; determine the profitability of physicians and physician groups; understand the profitability of specific medical procedures; and perform numerous other functions.

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. Eclipsys manages its business as one reportable segment.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 estimates relate to the allowance for doubtful accounts, revenues recognized, the amounts recorded for capitalized software development costs, the warranty reserve and the valuation allowance for deferred tax assets.

Reclassifications

Certain prior period amounts have been reclassified to conform to the 2003 presentation.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, Eclipsys 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; professional services (including implementation, integration, training and consulting); remote hosting; outsourcing; network services; and the sale of computer hardware.

Systems and Services Revenue

Multiple Element Arrangements

Eclipsys 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. Eclipsys recognizes revenue in accordance with the provisions of Statement of Position, or SOP, No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-9, Staff Accounting Bulletin, or

2. Summary of Significant Accounting Policies — (Continued)

SAB, 101, "Revenue Recognition in Financial Statements" (which has been superseded by SAB 104) and Emerging Issues Task Force, or EITF 00-21, "Revenue Arrangements with Multiple Deliverables." SOP 97-2 and SAB 101, as amended, require among other matters, that there be a signed contract evidencing an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. For those license arrangements in which the fee is not considered fixed or determinable, the license revenue is recognized as payments become due.

For arrangements where vendor specific objective evidence ("VSOE") only exists for all undelivered elements, Eclipsys 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 software license arrangements that are bundled with services, and maintenance where services are considered essential to the functionality of the software, 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.

Eclipsys also enters into subscription arrangements that typically include multiple software products or services (including the right to future products within the suites purchased), implementation, consulting and maintenance services, along with outsourcing and remote hosting services, if requested by the customer. The customer is entitled to these elements throughout the term of the arrangements, which range from 3 to 7 years and up to 10 years in certain outsourcing agreements. Payments are due annually, quarterly or monthly over the arrangement term. For these arrangements, revenue is recognized monthly over the term of the agreement. In these arrangements, Eclipsys 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.

The license agreements for Eclipsys' software products include a limited warranty. The warranty provides that the product, in its unaltered form, will perform substantially in accordance with the related documentation. Through September 30, 2003, Eclipsys had not incurred any material warranty costs related to its products. As a result of the response time issues identified during the fourth quarter of 2003, Eclipsys recorded a warranty reserve of $4.4 million at December 31, 2003. Warranty costs are charged to costs of systems and services revenues when they are probable and reasonably estimable. A summary of the activity in Eclipsys' warranty reserve was as follows:

	Year ended December 31, 2003
Balance at beginning of period	$ —
Provision for warranties issued during the period	4,400
Balance at the end of period	$4,400

Services

Remote hosting 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.

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. Eclipsys' 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.

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 and Deferred Revenue

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 periods, which generally range from 12 to 24 months. The current portion of unbilled accounts receivable is included in accounts receivable.

In addition, Eclipsys 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 3 to 5 years and carry interest rates that range from 7% to 10%. Such amounts are recorded as non-current unbilled accounts receivable. The non-current portion of amounts due related to these arrangements was $1.0 million and $1.5 million as of December 31, 2003 and 2002, 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, (in thousands):

	2003	2002
Accounts Receivable:		
Billed accounts receivable, net	$49,150	$42,280
Total unbilled accounts receivable, net	5,753	4,542
Total accounts receivable, net	$54,903	$46,822

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.

Capitalized Software Development Costs

Eclipsys capitalizes a portion of its computer software development costs incurred subsequent to establishing technological feasibility. These costs include salaries, benefits, consulting 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 development costs to ensure that the investment will be recovered through future revenues. Capitalized software development costs were approximately $18.2 million, $8.8 million and $6.9 million for the years ended December 31, 2003, 2002 and 2001, respectively. These costs are amortized over the greater of the ratio

2. Summary of Significant Accounting Policies — (Continued)

that current revenues are 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 costs of systems and services revenues, was approximately $8.2 million, $6.3 million and $4.5 million for the years ended December 31, 2003, 2002 and 2001, respectively. Accumulated amortization of capitalized software development costs was $28.6 million and $20.4 million as of December 31, 2003 and 2002, respectively.

Write-down of Capitalized Software Development Costs

On October 20, 2003, Eclipsys announced that it had identified a response time issue with some components of SunriseXA, the newest version of Eclipsys' Sunrise suite of software. To address the issue, Eclipsys developed a strategy designed to allow SunriseXA customers to continue their deployment of SunriseXA, and to enable Eclipsys to continue its development of planned advanced SunriseXA components. The strategy is to replace the affected SunriseXA components with certain components of the SCM product. In connection with the strategy, Eclipsys recorded a $1.2 million write-down of capitalized software development costs for certain SunriseXA components to net realizable value. The write-down is included in the cost of systems and services revenues.

Acquired Technology and Intangible Assets

Acquired technology and intangible assets are amortized on a straight-line basis over their estimated useful lives. The carrying values of acquired technology and intangible assets are reviewed if the facts and circumstances suggest that they may be impaired and goodwill is reviewed at least annually. This review indicates whether assets will be recoverable based on future expected cash flows. The gross and net amounts for acquired technology, goodwill, and intangible assets consisted of the following as of December 31, (in thousands):

	2003	2002	
Amounts subject to amortization:			
Acquired technology	$ 95,795	$ 95,795	3 - 7 years
Ongoing customer relationships	10,690	10,690	5 years
Network services	5,764	5,764	3 years
Gross Intagibles	112,249	112,249	
Accumulated Amortization	(112,249)	(111,982)	
Net Acquired Technology	—	267	
Amounts not subject to amortization:			
Goodwill	454	454	
	$ 454	$ 721	

Amortization of acquired technology was $267,000 and $3,078,000 for the years ended December 31, 2003 and 2002 respectively. The ongoing customer relationships became fully amortized during the first quarter of 2002.

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

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." Under this new standard, the FASB eliminated amortization of goodwill and created indefinite life intangible assets and established new

2. Summary of Significant Accounting Policies — (Continued)

impairment measurement procedures for goodwill. In accordance with SFAS 142, goodwill is no longer amortized, but instead is tested for impairment at least once annually. There was no impairment of goodwill upon adoption of SFAS 142, and amortization ceased as of January 1, 2002, leaving a recorded balance of $454,000 for goodwill as of December 31, 2003 and 2002. The effect of adopting SFAS 142 was to reduce depreciation and amortization expense by $454,000 for the year ended December 31, 2002. Net income and earnings per share adjusted to exclude amortization expense is as follows for the year ended December 31, 2001 (in thousands, except earnings per share):

Net income:	
Reported net income	$4,408
Goodwill amortization	4,636
Adjusted net income	$9,044
Basic and diluted net income per share:	
Reported basic net income per share	$ 0.10
Goodwill amortization	0.11
Adjusted basic net income per share	$ 0.21
Reported diluted net income per share	$ 0.09
Goodwill amortization	0.10
Adjusted diluted net income per share	$ 0.19

Fair Value of Financial Instruments

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

Income Taxes

Eclipsys 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 carry-forwards given the provisions of the enacted tax laws.

Stock-Based Compensation

Eclipsys accounts 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. Under this method, compensation costs for stock options is measured as the excess, if any, of the estimated market price of Eclipsys' stock at the date of the grant over the amount an employee must pay to acquire the stock. Accordingly, Eclipsys provides the additional disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure."

Eclipsys has adopted the disclosure only provision of SFAS 123. Had compensation costs for Eclipsys' stock option grants described above been determined based on the fair value at the grant date for awards in 2001, 2002 and 2003, consistent with the provisions of SFAS 123, Eclipsys' net loss and loss per share would

2. Summary of Significant Accounting Policies — (Continued)

have been increased to the pro forma amounts indicated below for the years ended December 31, (in thousands, except per share data), as follows:

	2003	2002	2001
Net (loss) income:			
As reported	$(55,964)	$(29,763)	$ 4,408
Add: Stock-based employee compensation expense included in Net loss, net of related tax effects	224	134	144
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(16,162)	(24,182)	(26,036)
Pro forma	$(71,902)	$(53,811)	$(21,484)
Basic net (loss) income per share:			
As reported	$ (1.23)	$ (0.67)	$ 0.10
Pro forma	$ (1.58)	$ (1.20)	$ (0.50)
Diluted net (loss) income per share:			
As reported	$ (1.23)	$ (0.67)	$ 0.09
Pro forma	$ (1.58)	$ (1.20)	$ (0.50)

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 2003, 2002 and 2001: dividend yield of 0% for all years, risk-free interest rate 2.63% for 2003; 3.11% for 2002; and 4.27% for 2001; expected life of 4.88, 4.84 and 6.81 years, based on the plan and volatility of 92% for 2003, 92% for 2002 and 93% for 2001.

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 SFAS 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 option warrants and unvested restricted stock. Stock options to acquire 9,268,674, 9,020,711 and 8,006,072 shares of common stock at December 31, 2003, 2002 and 2001, respectively; warrants to acquire up to 5,160 shares of common stock at December 31, 2003, 2002 and 2001; and unvested restricted stock of 136,250 and 150,000 at December 31, 2003 and 2002, respectively, were the only securities issued which would be included in the diluted earnings per share calculation, if dilutive. In 2003 and 2002, the inclusion of stock options and warrants would have been antidilutive due to the net loss reported by Eclipsys, and therefore excluded from the calculation. The

2. Summary of Significant Accounting Policies — (Continued)

computations of the basic and diluted per share amounts were as follows for the years ended December 31 (in thousands, except share and per share data):

	2003	2002	2001
Basic Earnings Per Share:			
Net (loss) income (in thousands)	$ (55,964)	$ (29,763)	$ 4,408
Weighted average shares outstanding	45,404,754	44,710,754	43,243,512
Basic (loss) earnings per share	$ (1.23)	$ (0.67)	$ 0.10
Diluted Earnings Per Share:			
Net (loss) income (in thousands)	$ (55,964)	$ (29,763)	$ 4,408
Weighted average shares:			
Outstanding	45,404,754	44,710,754	43,243,512
Effect of dilutive stock options	—	—	3,551,849
Total shares	45,404,754	44,710,754	46,795,361
Diluted (loss) earnings per share	$ (1.23)	$ (0.67)	$ 0.09

Concentration of Credit Risk

Our customers operate primarily in the healthcare industry. We sell our products and services under contracts with varying terms. The accounts receivable amounts are unsecured. We believe that the allowance for doubtful accounts is sufficient to cover credit losses. We do not believe that the loss of any one customer would have a material effect on our financial position.

Foreign Currency

Our 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 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. We have not entered into any hedging contracts during the three-year period ended December 31, 2003.

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 January 2003, the FASB issued FASB Interpretation 46, "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities ("VIE") which possess certain characteristics. The interpretation requires that if a business enterprise has a controlling financial interest in a VIE, the assets, liabilities, and results of operations of the VIE must be included in the consolidated financial

2. Summary of Significant Accounting Policies — (Continued)

statements with those of the business enterprise. This interpretation applies immediately to each VIE created after January 31, 2003, and to each VIE in which an enterprise obtains an interest after that date. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R"), to clarify some of the provisions of FIN 46 and exempt certain entities from its requirements. Under FIN 46R, a legal entity is generally considered a VIE, if specific criteria are met, including whether the VIE has sufficient equity at risk to finance its own activities without relying on financial support from other parties. Additional criteria must be applied to determine if this condition is met or if the equity holders, as a group, lack any one of the three stipulated characteristics of a controlling financial interest. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary of the VIE must consolidate it. Even if the reporting entity is not required to consolidate a VIE, then certain disclosures must be made about the VIE if the reporting entity has a significant variable interest. The effective date of the interpretation was modified under FIN 46R. A reporting entity is required to apply the provisions of FIN 46R to all VIEs that previously were subject to certain previously issued special purpose entity, or SPE, accounting pronouncements for all reporting periods after December 14, 2003. For each VIE, a reporting entity is required to adopt the provisions of FIN 46R for all reporting periods after March 15, 2004. We believe FIN 46R will not impact the Eclipsys' financial position or results of operations.

In December 2003, the Staff of the Securities and Exchange Commission (SEC) issued SAB 104, Revenue Recognition, which supercedes SAB 101, Revenue Recognition in Financial Statements. The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element arrangements, superseded as a result of the issuance of EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables (EITF 00-21). The guidance contained in SAB 104 reflects the issuance of EITF 00-21, but the revenue recognition principles remaining largely unchanged. As Eclipsys has already incorporated EITF 00-21 and SAB 101, into its revenue recognition policies, the adoption of SAB 104 did not have a significant impact on Eclipsys' financial statements.

3. 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 generally range from 2 to 7 years. Computer equipment is depreciated over 2 to 5 years. Office equipment is depreciated over two to seven years. Purchased software for internal use is amortized over 3 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. The balances for property and equipment were as follows as of December 31, (in thousands):

	2003	2002
Computer equipment	$ 34,835	$ 25,702
Office equipment and other	6,935	6,561
Purchased software	11,338	11,084
Leasehold improvements	9,022	7,972
	62,130	51,319
Less: Accumulated depreciation and amortization	(29,826)	(24,519)
	$ 32,304	$ 26,800

Depreciation and amortization expense of property and equipment totaled approximately $10.5 million, $8.4 million, and $6.7 million in 2003, 2002 and 2001, respectively.

4. Stockholders' Equity

Restricted Stock Grant

On July 15, 2002, Mr. Paul L. Ruflin joined Eclipsys as its Chief Executive Officer and President. Under his employment arrangement with Eclipsys, Mr. Ruflin received a restricted stock grant effective July 15, 2002 of 150,000 shares of Eclipsys' common stock, subject to a five-year vesting schedule, plus an option to purchase 850,000 shares of Eclipsys' common stock at a price of $7.50, with vesting over a five-year period. Stock compensation related to this restricted stock grant amounted to $225,000 in 2003 and $103,000 in 2002. As of December 31, 2003 and 2002, respectively, Eclipsys had unearned stock compensation of $795,000 and $1,021,000 recorded as a component of stockholders' equity.

Undesignated Preferred Stock

Eclipsys 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. Eclipsys 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 preferred shares.

Shareholder Rights Plan

On July 26, 2000, our Board of Directors declared a dividend of one Right for each outstanding share of Eclipsys' Common Stock to stockholders of record at the close of business on August 9, 2000. Each Right entitles the registered holder to purchase from Eclipsys 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 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 of Directors. The terms of the Rights are set forth in a Rights Agreement dated as of July 26, 2000 (the "Rights Agreement") between Eclipsys 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, Eclipsys 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. Income Taxes

The income tax provision (benefit) is calculated as follows for the years ended December 31, (in thousands):

	2003	2002	2001
Current Tax Provision:			
Federal	$ —	$ —	$ —
State		165	—
	$ —	$ 165	$ —
Deferred Provision (Benefit):			
Federal	$(18,859)	$(10,076)	$(171)
State	(2,197)	(1,180)	(20)
Valuation allowance	21,056	11,256	191
	$ —	$ —	$ —
Total Provision	$ —	$ 165	$ —

A reconciliation of the effect of applying the federal statutory rate and the effective income tax rate on Eclipsys' income tax provision is as follows for the years ended December 31, (in thousands):

	2003	2002	2001
Statutory federal income tax rate	$(19,028)	$(10,119)	$ 1,499
State income taxes	(2,216)	(1,013)	175
Non-deductible amortization	—	—	1,943
Other	604	479	344
Valuation allowance, includes effect of acquisitions	20,640	10,818	(3,961)
Income tax provision	$ —	$ 165	$ —

5. Income Taxes — (Continued)

The significant components of Eclipsys' net deferred tax assets (liabilities) were as follows as of December 31, (in thousands):

	2003	2002
Deferred tax assets:		
Intangible assets	$ 33,673	$ 37,804
Allowance for doubtful accounts	3,085	2,725
Accrued expenses	3,363	2,442
Other	2,547	2,274
Net operating loss carryforwards	88,696	60,396
	$131,364	$105,641
Deferred tax liabilities:		
Unbilled accounts receivable	$ (3,898)	$ (3,798)
Depreciation	(2,557)	(1,362)
Capitalization of software development costs	(9,589)	(6,217)
Net deferred tax asset	115,320	94,264
Valuation allowance	(115,320)	(94,264)
	$ —	$ —

At December 31, 2003, Eclipsys had net operating loss carryforwards for federal income tax purposes of approximately $226.5 million. The carryforwards expire in varying amounts through 2023. Of this amount, $42.5 million relate to stock option tax deductions, which will be tax-effected and the benefit credited as additional paid-in-capital when realized. Additionally, Eclipsys has Canadian net operating loss carryovers of approximately $7.1 million that expire in varying amounts through 2010.

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. Eclipsys experienced an ownership change as defined under Section 382 of the Internal Revenue Code in November 1998. As a result of the ownership change, net operating loss carryforwards of approximately $16 million at November 1998, which were incurred prior to the date of the change, are subject to annual limitations on their future use. As of December 31, 2003, net operating loss carryforwards of approximately $7.5 million remain subject to the annual limitation. As of December 31, 2003, a valuation allowance has been established against the deferred tax assets that management does not believe are more likely than not to be realized.

6. Employee Benefit Plans

1996 Stock Option Plan

In April 1996, Eclipsys' Board of Directors adopted the 1996 Stock Plan (the "1999 Stock Plan"). The 1996 Stock Plan, as amended, provided for grants of stock options, awards of Eclipsys stock free of any restrictions and opportunities to make direct purchases of restricted stock of Eclipsys. 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 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 additional options or other awards may be granted under the 1996 Stock Plan.

6. Employee Benefit Plans — (Continued)

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

At Eclipsys' Annual Meeting of Stockholders held on May 8, 2002, the shareholders voted to approve the amendment and restatement of Eclipsys' 2000 Stock Incentive Plan, 1999 Stock Incentive Plan, 1998 Stock Incentive Plan and Amended and Restated 1998 Employee Stock Purchase Plan and the 1996 Stock Plan, to reflect an increase in the number of shares of common stock authorized for issuance under all of the Company's stock plans (the 2000 Stock Incentive Plan, the 1999 Stock Incentive Plan, the Amended and Restated Employee Stock Purchase Plan, the 1998 Stock Incentive Plan and the 1996 Stock Plan) from 12,000,000 to 15,000,000. There were 1,109,099 shares available for future issuance under all of Eclipsys' stock plans as of December 31, 2003. A summary of stock option transactions is as follows during the years ended December 31,:

	2003		2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of the year	9,020,711	$11.24	8,006,072	$12.22	9,148,878	$12.87
Granted	1,539,500	9.08	1,922,925	8.20	1,196,284	14.70
Exercised	(430,132)	8.26	(195,277)	7.53	(1,342,619)	10.96
Forfeited	(861,405)	10.90	(713,009)	15.14	(996,471)	22.89
Outstanding at end of year	9,268,674	11.05	9,020,711	11.23	8,006,072	12.22
Exercisable at end of the year	5,714,566		4,960,438		3,425,434	

	2003		2002		2001	
Option Granted During the Year	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 price < Fair market value	—		—		—	
Option price = Fair market value	$9.08		$8.20		$14.70	
Option price < Fair market value	—		—		—	
Weighted Fair Market Value Options		$6.44		$6.59		$10.70

6. Employee Benefit Plans — (Continued)

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at 12/31/03	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at 12/31/03	Weighted Average Exercise Price
$ 0.10 - $ 6.44	1,025,280	7.52	$5.88	563,154	$5.93
$ 6.50 - $ 7.50	1,445,926	7.02	7.11	385,786	7.19
$ 8.25 - $ 8.25	2,179,824	6.53	8.25	2,009,045	8.25
$ 8.88 - $ 9.13	1,057,938	9.10	8.94	65,272	9.06
$ 9.53 - $13.20	967,579	7.60	11.75	529,135	11.38
$13.21 - $15.13	1,235,578	6.46	14.59	969,045	14.68
$15.63 - $23.38	1,256,277	5.97	20.35	1,096,007	20.61
$25.71 - $25.71	22,049	3.11	25.71	20,999	25.71
$35.83 - $35.83	39,374	3.58	35.83	39,374	35.83
$43.57 - $43.57	38,849	3.88	43.57	36,749	43.57
	9,268,674				

Employee Savings Plan

During 1997, Eclipsys 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 of Directors, Eclipsys may elect to make matching contributions, as defined in the Plan. For the years ended December 31, 2003, 2002 and 2001, the Board authorized matching contributions totaling $750,000, $750,000 and $532,000, respectively.

1998 Employee Stock Purchase Plan

Under Eclipsys' 1998 Employee Stock Purchase Plan (the "Purchase Plan") (implemented in April 1998), Eclipsys employees, including directors of Eclipsys 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.

7. Commitments and Contingencies

Noncancelable Operating Leases

Eclipsys leases its office space and certain equipment under noncancelable operating leases. Rental expense under operating leases was approximately $12.5 million, $11.8 million and $11.4 million for the years

7. Commitments and Contingencies — (Continued)

ended December 31, 2003, 2002 and 2001, respectively. Future minimum rental payments under noncancelable operating leases as of December 31, 2003 are as follows (in thousands):

Year Ending December 31,	
2004	$10,632
2005	7,801
2006	6,210
2007	4,083
2008	2,574
Thereafter	5,394
	$36,694

Subsequent to December 31, 2003, Eclipsys contracted for a minimum number of hours for airplane charters with a related party (note 9). The minimum commitment amounts to $776,000 per year for 2004 and 2005.

Indemnification clauses

Eclipsys' standard software license agreements contain indemnification clauses that are limited in amount. Pursuant to these clauses, Eclipsys indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party. Eclipsys believes the estimated fair value of these indemnification clauses is minimal. Accordingly, there are no liabilities recorded for these agreements as of December 31, 2003.

8. Legal Action

From July through September 2002, our company and three of its then current officers (Messrs. Robert J. Colletti, John T. Patton, Jr. and Harvey J. Wilson) were named in seven complaints filed by purported shareholders of our company in the United States District Court, Southern District of Florida, West Palm Beach Division, or the District Court. Each complaint sought certification as a class and monetary damages, and alleged that we and the named officers violated federal securities laws. We believe that the actions are without merit, and are conducting a vigorous defense.

On February 4, 2003, the District Court issued an order consolidating all seven cases into one single case and appointed the City of Philadelphia Board of Pensions and Retirement, Louis Giannakokas and Norman K. Mielziner to serve as lead plaintiffs. On April 30, 2003, the plaintiffs filed with the District Court an amended, consolidated complaint (the Amended Complaint''). On July 31, 2003, we filed a motion to dismiss the Amended Complaint. On September 16, 2003, the plaintiffs filed opposition to the motion to dismiss, and we filed a reply brief on October 16, 2003. On November 4, 2003, the District Court granted our motion to dismiss the Amended Complaint in its entirety. In so doing, the District Court granted the plaintiffs fifteen days to file a further amended complaint that conforms to applicable law as well as the District Court's ruling. The plaintiffs subsequently obtained an extension of that fifteen day deadline.

On December 5, 2003, the plaintiffs filed with the District Court their second amended complaint (the ''Second Amended Complaint''). In it, among other things, the plaintiffs reduced the class period by a total of eight months and eliminated numerous allegations that had been contained in their Amended Complaint. On January 5, 2004, we filed a motion to dismiss the Second Amended Complaint. The plaintiffs filed opposition papers to our motion on February 20, 2004. In March 2004, we will file a brief in further support of our

8. Legal Action — (Continued)

motion. At this time, our motion is pending. We do not know when the District Court will rule on our motion or whether our motion will be granted.

Separately, in October 2003, we were contacted by the attorneys for the lead plaintiffs who sought our consent to their filing of an amended complaint that would add new counts asserting new claims and a new class period due to our announced SunriseXA response time issues. We did not formally respond to their request, and have not yet seen any pleadings filed in which the lead plaintiffs have sought to add or assert claims. Accordingly, we are unable to predict whether new claims may be filed against us, or what effect of any new claims could have on our pending cases. We are also unable to predict the nature of any new claims or the damages that may be sought if any new claims are filed.

We are involved in other 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 our financial position, results of operation or cash flows.

9. Related Party Transactions

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

Eclipsys leases office space in Boston, Massachusetts from a former stockholder of SDK, who is a current employee. During the years ended December 31, 2003, 2002 and 2001, Eclipsys paid $526,000, $579,000, and $692,000 respectively, under this lease. The lease is noncancelable and expires in 2009.

Eclipsys' Chairman Emeritus, Harvey J. Wilson, owns a company, RMSC of West Palm Beach Inc. ("RMSC"), which leases an aircraft to a charter company. The charter company provides aircraft charter services to Eclipsys as well other outside parties. Mr. Wilson has no ownership or other interest in the charter company. Eclipsys paid the charter company $603,000, $885,000, and $775,000 in 2003, 2002 and 2001, respectively, for charters using the aircraft owned by RMSC. Eclipsys also paid the charter company $50,000, $265,000 and $43,000 in 2003, 2002 and 2001, respectively, for charters of other aircraft, not owned by RMSC. RMSC received $275,000, $533,000 and $481,000 during 2003, 2002, and 2001, respectively, from the charter company for these transactions. During January 2003, Eclipsys contracted for a minimum number of hours for airplane charters to extend the current pricing terms. The minimum commitment amounts are $951,000 and $776,000 in 2004 and 2005, respectively. As part of this arrangement, Eclipsys did not utilize $175,000 of the 2003 commitment. RMSC agreed to allow the unused portion to be utilized in 2004 which is reflected in the above commitment.

In July 1999, Eclipsys invested in HEALTHvision, Inc. ("HEALTHvision"), a Dallas-based, privately held internet healthcare company. Other principal investors included 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 in HEALTHvision for $34,000, which at the time represented 34% of the outstanding common stock on an if-converted basis. As of December 31, 2003, 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. Due to losses recognized under the equity method, the recorded balance of the investment in HEALTHvision was $0 as of December 31, 2003. We entered into a joint marketing arrangement with HEALTHvision under which both organizations agreed to jointly market products and services to their customers. Under this agreement, we paid HEALTHvision the sum of $1.4 million during 2003 for the sale of products and services, and owed HEALTHvision the sum of

9. Related Party Transactions — (Continued)

$0.9 million as of December 31, 2003. Also, during 2003, we earned revenues from HEALTHvision of $1.2 million for hosting and other related services and had accounts receivable due from HEALTHvision of $0.4 million at December 31, 2003. For the year ended December 31, 2003, HEALTHvision, Inc. had total revenues of approximately $25.1 million (unaudited) and a net loss of approximately $2.6 million (unaudited) with total assets of approximately $14.0 million (unaudited). We are not required to provide funding to HEALTHvision, and have made no guarantees on their behalf. In late 2003, we mutually agreed with HEALTHvision to terminate the joint marketing arrangement of our agreement.

Eclipsys has a license agreement with Partners HealthCare System, Inc. ("Partners"). Under the terms of this license, Eclipsys may develop, commercialize, distribute and support certain technology that it has received from Partners throughout the world (with the exception of the Boston, Massachusetts metropolitan area). Prior to Eclipsys' initial public offering, no sales of products incorporating the licensed technology were made and, consequently, no royalties were paid by Eclipsys pursuant to the license with Partners. The royalty arrangement under the license terminated upon Eclipsys' initial public offering. After Eclipsys' initial public offering, Eclipsys sold products incorporating the licensed technology. Eclipsys 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 Eclipsys, 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.

In 2001, Partners entered into a contract with Eclipsys 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 Eclipsys in December 1998. Under this new contract, Partners paid Eclipsys the sums of $627,000, $1,032,000 and $954,000 in 2003, 2002 and 2001, respectively. As of December 31, 2003, Partners owed Eclipsys the sum of $100,000 related to this contract. Mr. Jay Pieper, a director of Eclipsys, is Vice President of Corporate Development and Treasury Affairs for Partners. Partners was not affiliated with Eclipsys at the time of the negotiation of the Partners license from Transition Systems, Inc.

10. Subsequent Events

In March 2004, the Company acquired CPM Resource Center, LTD ("CPMRC"). CPMRC provides consulting services and clinical content focused in the nursing area. The Company paid $2.5 million in cash and issued 184,202 shares of common stock for total consideration of $5.0 million. Additionally, the prior owners of CPMRC may earn an additional $12.5 million over the next 5 years based on future operating results.

In February 2004, the Company temporarily suspended offerings under its Employee Stock Purchase Plan (the "Purchase Plan"). In the future the Company may elect to resume offerings under the Purchase Plan but currently does not have any plans to do so.

ECLIPSYS CORPORATION
SCHEDULE II — VALUATION OF QUALIFYING ACCOUNTS
For Each of the Three Years in the Period Ended December 31, 2003
(in thousands)

	Balance at Beginning of Period	Additions	Write-offs	Balance at End of Period
December 31, 2003				
Allowance for doubtful accounts	$ 3,412	$ 4,492	$(3,097)	$ 4,807
Valuation allowance for deferred tax asset	94,264	21,056		115,320
December 31, 2002				
Allowance for doubtful accounts	5,572	3,533	(5,693)	3,412
Valuation allowance for deferred tax asset	83,008	11,256		94,264
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 consolidated statement of operations data for each of the eight quarters in the years ended December 31, 2002 and 2003. The data in the statement of operations is unaudited and, in the opinion of management, includes all adjustments (consisting of normal recurring adjustments) necessary to present fairly the data for such periods. Additionally, the data is derived from, and is qualified by reference to, Eclipsys' audited financial statements, which appear elsewhere in this document.

For the Year Ended December 31, 2003
(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$56,836	$63,386	$68,150	$66,307	$254,679
Gross profit margin	21,348	25,323	26,744	20,250	93,665
Net (loss) income	(13,025)	(11,019)	(11,067)	(20,853)	(55,964)
Basic net (loss) income per share	$ (0.29)	$ (0.24)	$ (0.24)	$ (0.46)	$ (1.23)
Diluted net (loss) income per share	$ (0.29)	$ (0.24)	$ (0.24)	$ (0.46)	$ (1.23)

For the Year Ended December 31, 2002
(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$62,819	$54,252	$47,549	$53,448	$218,068
Gross profit margin	30,507	23,626	14,146	18,474	86,754
Net income (loss)	5,309	(3,047)	(17,174)	(14,852)	(29,763)
Basic net (loss) income per share	$ 0.12	$ (0.07)	$ (0.38)	$ (0.33)	$ (0.67)
Diluted net (loss) income per share	$ 0.11	$ (0.07)	$ (0.38)	$ (0.33)	$ (0.67)

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

Not applicable.

Item 9A. *Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2003. Based on this evaluation, Eclipsys' chief executive officer and chief financial officer concluded that, as of December 31, 2003, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made know to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part III

Certain information required by Part III of Form 10-K will be contained in the definitive Proxy Statement to be used in connection with the annual meeting of stockholders for the year 2004, 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 2004 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 2004 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 our 2004 annual stockholders' meeting, and is incorporated herein by reference.

The following table provides information about the Common Stock that may be issued under our existing equity compensation plans as of December 31, 2003.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security	9,268,674	$11.05	1,109,099
Equity compensation plans not approved by security holders	—		—
Total	9,268,674		1,109,099

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 2004 and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

Information regarding principal accountant fees and services will be set forth in the proxy statement for the annual meeting of stockholders for the year 2004 and is incorporated herein by reference.

Part IV

Item 15. ***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
   Schedule II — Valuation of Qualifying Accounts
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 Emtek 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
4.2********	Rights Agreement, dated July 26, 2000, by and between Eclipsys Corporation and Fleet National Bank, as Rights Agent
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*********	Amended and Restated 1998 Stock Incentive Plan

10.9*********	Second Amended and Restated 1998 Employee Stock Purchase Plan
10.10	First Amendment to the Second Amended and Restated 1998 Employee Stock Purchase Plan
10.11	Form of Indemnification Agreement between Eclipsys Corporation and each non-employee directors
10.12***********	Amendment No. 1 to the Amended and Restated 2000 Stock Incentive Plan
10.13**	Settlement of Claims Agreement, dated as of March 13, 1998, between ALLTEL Information Services, Inc. and Eclipsys Corporation
10.14*********	Amended and Restated 1999 Stock Incentive Plan, as amended
10.15*********	Amended and Restated 2000 Stock Incentive Plan
10.16	Employment Agreement for Paul L. Ruflin
10.17***********	Agreement with Mr. Harvey J. Wilson
10.18***********	Consulting Agreement with Mr. Harvey J. Wilson
10.19***********	Agreement with Mr. John S. Cooper
21**********	Subsidiaries of the Registrant
23	Consent of PricewaterhouseCoopers LLP
31.1	Certification of Paul L. Ruflin
31.2	Certification of Robert J. Colletti
32	Certification Pursuant to 18 U.S.C. Section 1350

† Confidential treatment granted on August 6, 1998 in connection with the Registrant's initial public offering

* 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, 2002 (File No. 000-24539)

********** Incorporated by reference to Exhibit 21 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 000-24539)

*********** Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (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.

Signature	Title	Date
/s/ PAUL L. RUFLIN Paul L. Ruflin	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2004
/s/ ROBERT J. COLLETTI Robert J. Colletti	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2004
/s/ STEVEN A. DENNING Steven A. Denning	Director	March 15, 2004
/s/ G. FRED DIBONA G. Fred Dibona	Director	March 15, 2004
/s/ EUGENE V. FIFE Eugene V. Fife	Director	March 15, 2004
/s/ BRADEN KELLY Braden Kelly	Director	March 15, 2004
/s/ JAY B. PIEPER Jay B. Pieper	Director	March 15, 2004

Exhibit 31.1

CERTIFICATIONS

I, Paul L. Ruflin, certify that:

1. I have reviewed this annual report on Form 10-K of Eclipsys Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Dated: March 15, 2004

/s/ PAUL L. RUFLIN

Paul L. Ruflin
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Robert J. Colletti, certify that:

1. I have reviewed this annual report on Form 10-K of Eclipsys Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 15, 2004

/s/ ROBERT J. COLLETTI

Robert J. Colletti
Chief Financial Officer

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Value: Outcomes

We're not known as The Outcomes Company just because *we* say so. It's because of our focus on helping customers achieve improved, sustainable clinical, financial and satisfaction outcomes through the use of our software and services. Some examples include:

El Camino Hospital (Mountain View, CA), the first hospital in the world to implement a computerized physician order entry-based system (CPOE), turned to software and outsourcing services provider Eclipsys for a new wireless network and mobile devices (carts, tablet PCs, and communications badges) for improved physician and hospital staff communications. El Camino is already reaping the benefits.

Using the wireless network and devices, El Camino has reduced the process of paging for an IV change from seven steps to two. It has also lowered the average response time from as much as 15 minutes to less than 60 seconds. That improves workflows, productivity, and patient, physician and staff satisfaction. A wireless bedside computing initiative was launched in fall 2003 with the introduction of the "five rights" drug administration program on PDA-like devices. El Camino is replacing our heritage Eclipsys 7000 system with SunriseXA.

Using Eclipsys' advanced management decision support solution, **Covenant Health** (Knoxville, TN) has improved the effectiveness of cash collections through the use of payer compliance tools. Results have included identifying $33.1 million in potential underpayments, re-billing of $14.8 million, and collecting $13 million in cash for the three target facilities.

MidState Medical Center (Meriden, CT) has utilized Eclipsys' Knowledge-Based Transcription solution to increase transcriptionist efficiency by 56%, from an average of 90 lines per hour to 140 lines per hour. At the same time, transcriptionist quality improved from 80% to 98%.

Utilizing Eclipsys' advanced clinical documentation solution, **The Johns Hopkins Hospital** (Baltimore, MD) has retained over $1 million a year in payer revenue as a result of improved documentation. The hospital has also improved its ability to produce documentation as proof of services rendered.

Saint Francis Hospital and Medical Center (Hartford, CT) has used Sunrise Access Manager's billcode and proration features to reduce the number of insurance plan selections needed to accurately address carve-out billing. St. Francis has reduced days in Accounts Receivable by 30%, and reduced denials by moving authorization activities to the registration process. It has also decreased unbilled days through the use of interfaces that apply charges as services are performed.

An early adopter of Sunrise Clinical Manager and its knowledge-based CPOE, **Sarasota Memorial Health Care System** (Sarasota, FL) has achieved widespread and impressive documented outcomes since the system was implemented in 1997. Just a few of these include:

- Decreased adverse drug events using alerts designed to notify clinicians of drug allergies or dosage errors.
- Reduced Medicare denials for EKGs and chest X-rays ordered in the Emergency Department by 90% by making the "reason for diagnosis" field mandatory in the imaging order set.
- Reduced the number of duplicate lab tests and lost lab orders. Also, improved overall laboratory turnaround times by 62% with significant decreases in turnaround time experienced across all order types: routine, ASAP and STAT.
- Improved compliance with JCAHO documentation standards by 36%.
- Direct physician utilization: over two million orders have been entered by physicians since 1998.

ECLIPSYS®

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