

AMICAS[®]

Empowering the Business of Imaging



AMICAS, Inc.

ANNUAL REPORT 2007

Dear Fellow Shareholders

It is with great pleasure that I present to you the AMICAS, Inc. 2007 Annual Report. In 2007, AMICAS continued its work to establish itself as the leading independent provider of image and information management solutions to the healthcare industry. We continue to believe that there is a great market for image and information management solutions, and we remain confident about our strategy, our plan, our innovation, and our team.

While 2007 fell short of our expectations in terms of revenue growth, there were a number of noteworthy accomplishments. First of all, our bookings in 2007 increased over 20 percent compared to 2006. In addition, we completed the acquisition of a new revenue cycle management platform, which solidified our strategy of providing end-to-end automation solutions – including RIS, PACS, and revenue cycle management – to our customers. Finally, we were also able to sign a number of very sophisticated and strategic imaging service providers as AMICAS customers, with the fourth quarter being particularly important in terms of strategic wins.

We believe that the use of imaging in clinical practice will continue to grow. Improvements in diagnostic imaging capabilities, combined with fundamental demographic trends such as the overall aging of the population, an unrivalled public interest in health and fitness, and the lay public's increasing demand for non-invasive diagnostic interventions, all support our belief that imaging study volumes will continue to grow. Frost & Sullivan reports that diagnostic imaging procedure volume is expected to continue to grow 15 percent annually to over 500 million annual procedures by 2009.

Despite the increase in annual procedures, the number of practicing radiologists providing interpretation services is expected to increase by less than 2 percent annually, according to the American Journal of Roentgenology. This supply/demand imbalance is creating an intense need for improved efficiency and flexibility that will continue to fuel an increased need for more and better automation support of image and information management.

With this growth in volume comes a significant increase in the cost of providing imaging services. Imaging represents nearly \$100 billion of healthcare spend per year, and utilization of diagnostic imaging services has been increasing consistently over the past few years. This growth has attracted the attention of the U.S. government and other payers. In the Deficit Reduction Act (DRA), Congress enacted special payment rules limiting Medicare reimbursements for certain portions of imaging services performed in the office, ambulatory, and other non-hospital settings.

As a result of the DRA, since early 2007, ambulatory imaging businesses are being forced to operate at a lower per study revenue rate. The revenue pressure resulting from the DRA has created the need for ambulatory imaging businesses to establish cost control initiatives, which, in turn, puts pressure on imaging IT-related spending in the ambulatory space. Still, while the availability of

A LETTER FROM THE CEO
STEPHEN N. KAHANE, MD

discretionary dollars has tightened, we believe that our automation solutions can help ambulatory imaging businesses reduce their operating expenses – while enabling them to increase their revenues to offset the lower per study reimbursement resulting from the DRA. In our opinion, the best strategy for these businesses involves focusing on growth and operating efficiency through automation.

We believe that our target markets remain strong and underpenetrated in terms of their use of information technology. This scenario offers us a significant opportunity in both the ambulatory market – which is composed of radiology groups, imaging centers, billing services, and teleradiology – and the hospital market. In the hospital market, we remain focused on small- to medium-sized institutions and offer an excellent PACS solution that we believe has industry leading capabilities related to clinical workflow, scalability, and return on investment. PACS-related bookings continued to represent a significant portion of our business in 2007.

We are encouraged by a number of our 2007 contracts, which serves as a testament to both the continued need for image and information management solutions and our improved execution. Several of the country's largest radiology groups made decisions in 2007 to use AMICAS products as the basis for their automation infrastructure going forward. We believe that the ability to partner with a major independent player for an end-to-end automation solution is a real need within our target market. We also believe that only AMICAS is able to provide this proven end-to-end solution with a highly acclaimed, modern platform.

At AMICAS, every member of our organization is aligned behind our commitment to customer success and innovation. Delivering unrivaled value to our customers by designing, developing, deploying, and supporting industry leading image and information management solutions remains the cornerstone of our strategy. We expect that continued execution of this strategy will reward our customers, associates, and shareholders alike.

I would like to thank the entire AMICAS team for their hard work and dedication throughout 2007. On behalf of all of us at AMICAS, I would also like to thank you, our shareholders, for your continued support. We continue to believe that AMICAS is in the right place at the right time with excellent solutions for a market in need of a transformation to an automated digital world. Such a transformation will help everyone operate more effectively and efficiently. We believe that we are on the right track and look forward to an exciting and successful 2008 and beyond.



Very sincerely,

A handwritten signature in dark ink that reads "Stephen N. Kahane, MD". The signature is written in a cursive, flowing style.

Stephen N. Kahane, MD
CEO, President, and Chairman

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission File Number 000-25311

AMICAS, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

59-2248411

*(I.R.S. Employer
Identification No.)*

20 Guest Street, Suite 400, Boston, Massachusetts 02135

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code:

(617) 779-7878

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001	The NASDAQ Stock Market LLC
Rights to purchase Series B Preferred Stock	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-12 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2007 was approximately \$94 million based on the closing price of \$3.52 at which the common equity was last sold. Solely for the purpose of this calculation, directors and officers of the registrant are deemed to be affiliates.

As of March 12, 2008, there were 43,153,817 shares outstanding of the Registrant's \$0.001 par value common stock.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2008 Annual Meeting of Stockholders, expected to be held on June 3, 2008, are incorporated into Part III herein by reference.

AMICAS, INC.

Form 10-K

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AMICAS, Vision Series, Office Solutions, RadStream, Insight Dashboards, and AMICAS Insight Solutions are trademarks, service marks or registered trademarks of AMICAS, Inc. All other trademark and company names mentioned are the property of their respective owners.

PART I

Item 1. *Business*

General

AMICAS, Inc. (“we,” “us,” “our,” “AMICAS” or the “Company”), formerly known as VitalWorks Inc., is a leader in radiology and medical image and information management solutions. The AMICAS Vision Series™ products provide a complete, end-to-end IT solution for imaging centers, ambulatory care facilities, radiology practices and billing services. Solutions include automation support for workflow, imaging, revenue cycle management and document management. Hospital customers are provided a best-of-breed picture archiving and communication system (“PACS”), featuring advanced enterprise workflow support and a scalable design that can fully integrate with any hospital information system (“HIS”), radiology information system (“RIS”), or electronic medical record (“EMR”). Complementing the Vision Series product family is AMICAS Insight SolutionsSM, a set of client-centered professional and consulting services that assist our customers with a well-planned transition to a digital enterprise. In addition, we provide our customers with ongoing software and hardware support, implementation, training, and electronic data interchange (“EDI”) services for patient billing and claims processing.

We were incorporated in Delaware in November 1996 as InfoCure Corporation. On July 10, 1997, we completed our initial public offering. During the remainder of 1997 through 1999, we completed acquisitions of 16 medical and radiology software companies. In addition, during the period July 1997 through 2000, we acquired 19 companies that made up our former dental software business. We changed our name to VitalWorks Inc. in July 2001.

On March 5, 2001, we completed a spin-off of our dental software business through a pro rata distribution to our shareholders of all the outstanding common stock (the “Distribution”) of our previously wholly-owned subsidiary, PracticeWorks, Inc. (“PracticeWorks”). As a result of the Distribution, PracticeWorks became an independent public company consisting of our former dental business, which included the dental, orthodontic, and oral and maxillofacial surgery business lines. We relocated our executive offices to Connecticut, changed our name and began doing business as VitalWorks Inc. following the Distribution.

On November 25, 2003, we acquired 100% of the outstanding capital stock of Amicas PACS Corp. (formerly known as Amicas, Inc.), a developer of Web-based diagnostic image management software solutions. The addition of Amicas PACS Corp. (“Amicas PACS”) provided us with the ability to offer radiology groups and imaging center customers a comprehensive, integrated information and image management solution that incorporates the key components of a complete radiology data management system (i.e., image management, workflow management and financial management). The acquisition was completed to position us to achieve our goal of establishing a leadership position in the growing PACS market. PACS allow radiologists to access, archive and distribute diagnostic images for primary interpretation as well as to enable fundamental workflow changes that can result in improvements in operating efficiency. Vision Series PACS also supports radiologists and other groups to distribute images and digital information to their customers — the referring physicians.

On January 3, 2005, we completed the sale of substantially all of the assets and liabilities of our medical division, together with certain other assets, liabilities, properties and rights of the Company relating to our anesthesiology business (the “Medical Division”) to Cerner Corporation (“Cerner”) and certain of Cerner’s wholly-owned subsidiaries (the “Asset Sale”). The Medical Division provided IT-based, specialty-specific solutions for medical practices specializing in anesthesiology, ophthalmology, emergency medicine, plastic surgery, dermatology and internal medicine. The Asset Sale was completed in accordance with the terms and conditions of the Asset Purchase Agreement between the Company and Cerner dated as of November 15, 2004. The consolidated statements of operations for fiscal year 2005 and 2006 have been prepared to present the results of the Medical Division as discontinued operations.

Effective January 3, 2005, the Company changed its name from VitalWorks Inc. to AMICAS, Inc.

Industry Background

The healthcare market is one of the largest vertical markets in the United States with annual spending of more than \$2.1 trillion, representing approximately 16% of the U.S. gross domestic product in 2006. Spending on healthcare continues to outpace the rest of the economy, with experts predicting that healthcare expenditures will reach 19.6% of the U.S. gross domestic product by 2016.¹ Within the healthcare market vertical, diagnostic imaging (which includes general radiography, computed tomography, magnetic resonance imaging, nuclear medicine, ultrasound and positron emission tomography, among others) is widely regarded as one of the most visible advances over the last 25 years. As one of the most profound innovations in healthcare, diagnostic imaging has brought about great improvements in quality of care. A survey asked physicians to rank 30 innovations from the last 25 years in terms of their positive clinical impact on their patients: computed tomography and magnetic resonance imaging were ranked first.

Diagnostic imaging represents approximately \$100 billion of the overall healthcare spending per year — second only to pharmaceuticals in terms of overall expense within healthcare.² This \$100 billion price tag includes everything from the cost of scanners to radiologist salaries to the costs of managing the images produced from the scanners (e.g., buying, developing, storing, moving and filing costly, hard-to-transport x-ray film and older-generation information systems). Millenium Research Group reports that diagnostic imaging procedure volume in the United States is expected to continue to grow 5% annually to over 600 million annual procedures by 2010. With utilization and costs increasing at such a rapid pace, new solutions are needed to effectively manage the increase in cost. Comprehensive image and information management technology and applications can help to improve throughput and reduce costs as utilization of these services continues to increase rapidly.

Diagnostic imaging scanners have become much more sophisticated in recent years — primarily by producing an increased volume of high-quality images in a shorter time period. These improvements aid early diagnosis and detection and improve the overall patient experience. For healthcare providers, these improvements have resulted in a higher utilization of imaging services and an increased complexity of managing those imaging services. Multi-slice and helical computed tomography scanners, for example, produce many more images per procedure than traditional scanners, allowing for detection of smaller abnormalities and better reconstruction of three dimensional models to aid treatment decisions. For those without PACS, the increase in images per scan results in increased film costs, longer reading time for primary diagnosis and cumbersome management of the increasing volume of film.

Advances in diagnostic imaging technologies, an aging population, and a more health-conscious consumer contribute to an increase in the number of diagnostic imaging procedures. This increased demand comes at a time when there is an industry-wide staffing shortage. While the volume of diagnostic imaging procedures is expected to grow 15% annually, the number of practicing radiologists is expected to increase by less than 2% annually, according to the American Journal of Roentgenology. Hospitals, imaging centers, radiology group practices, and healthcare organizations have found themselves under increasing pressure from referring physicians and specialists to process more procedures, increase patient throughput, and improve the turn-around time of both the initial diagnostic interpretation and the final written report. Analog film-based practices have numerous inefficiencies, including lost or misplaced prior imaging studies, non-scalable methods for capturing orders, ability to obtain detailed accurate patient demographic information, schedule appointments and resources, as well as coding and preparing billing and reimbursement data. These practices are not able to meet the new demands of their referring physicians and specialists.

There are many products and services marketed to help providers of diagnostic imaging services combat these increases in complexity, cost, and utilization. For example, PACS solutions help ensure that prior imaging studies are not misplaced and that the time spent searching for those studies is minimized. PACS solutions also improve radiologist productivity. RIS solutions provide a scalable method for capturing orders with detailed patient demographic information, scheduling appointments and resources. Revenue cycle management solutions help ensure that exam coding and the billing and reimbursement data for payers and patients is done faster with a higher quality level to ensure that payment is accurate and timely.

¹ http://www.cms.hhs.gov/NationalHealthExpendData/25_NHE_Fact_Sheet.asp

² <http://www.aaos.org/news/bulletin/jul07/reimbursement1.asp>

According to industry experts, certain segments of the market for PACS solutions remain underpenetrated — in particular in the small community hospital and diagnostic imaging center market. Similarly, RIS solutions in diagnostic imaging centers have been deployed in less than 50% of such centers. Industry experts expect hospitals and imaging centers will continue to adopt RIS and newer generation PACS solutions to manage images and handle the workflow required to achieve efficiencies, from the receipt of a procedure or study request all the way to producing and distributing radiology reports. Also, a portion of the market that already has adopted PACS is considering newer generation solutions. The following table illustrates the anticipated adoption of RIS and PACS solutions by hospitals and imaging centers.

US Radiology PACS Market, 2007-2012

	Large Academic/Research Hospitals (>250,000 Exams)		Large Community Hospitals (100,000-250,000 Exams)		Small Community Hospitals (<100,000 Exams)		Diagnostic Imaging Centers	
	Penetration Rate	Annual Purchases	Penetration Rate	Annual Purchases	Penetration Rate	Annual Purchases	Penetration Rate	Annual Purchases
2007	95.4%	70	76.5%	240	35.0%	290	36.3%	245
2008	97.5%	70	80.4%	260	42.2%	350	41.3%	300
2009	98.5%	70	84.8%	290	50.5%	420	46.7%	345
2010	99.5%	70	88.2%	310	60.2%	500	53.0%	385
2011	99.7%	70	90.7%	330	71.6%	590	58.4%	430
2012	99.9%	70	92.1%	350	83.9%	680	63.8%	465
CAGR ('07-'12)	<u> </u>	<u>0.0%</u>	<u> </u>	<u>7.8%</u>	<u> </u>	<u>18.6%</u>	<u> </u>	<u>13.8%</u>

US Radiology RIS Market, 2007-2012

	Large Academic/Research Hospitals (>250,000 Exams)		Large Community Hospitals (100,000-250,000 Exams)		Small Community Hospitals (<100,000 Exams)		Diagnostic Imaging Centers	
	Penetration Rate	Annual Purchases	Penetration Rate	Annual Purchases	Penetration Rate	Annual Purchases	Penetration Rate	Annual Purchases
2007	100.0%	26	89.6%	100	69.3%	140	45.4%	275
2008	100.0%	26	92.7%	100	72.1%	140	49.8%	290
2009	100.0%	27	95.1%	110	75.0%	150	54.0%	295
2010	100.0%	27	96.8%	110	78.0%	160	58.1%	300
2011	100.0%	28	98.5%	120	81.1%	160	60.7%	300
2012	100.0%	28	99.9%	120	84.3%	170	63.4%	305
CAGR ('07-'12)	<u> </u>	<u>1.5%</u>	<u> </u>	<u>3.7%</u>	<u> </u>	<u>4.0%</u>	<u> </u>	<u>2.1%</u>

“CAGR” means compound annual growth rate.

Source: Millennium Research Group, 2008

The Deficit Reduction Act of 2005 (“DRA”) introduced additional challenges for providers of imaging services. In the DRA, Congress enacted special payment rules limiting Medicare reimbursements, beginning in 2007, for certain portions of imaging services performed in the office, ambulatory and other non-hospital settings. In some cases, the reduction in Medicare reimbursement may exceed 30% per procedure. As a result of the DRA, ambulatory imaging businesses will be required to operate on a lower per study revenue run rate. We believe that the DRA puts pressure on the providers of imaging services. We also believe that our automation solutions can help providers of imaging solutions reduce their cost basis and increase volumes to offset the anticipated reduction in reimbursement.

Business Strategy

We are a leader in radiology and medical image and information management solutions. We employ industry-leading technologies and techniques and are committed to the highest levels of quality in our products, professional services and technical support offerings.

Our target market is divided into two primary segments:

- ambulatory care facilities, which primarily consist of radiology groups, imaging centers, multi-specialty groups and billing services, and
- acute care facilities, which primarily consist of hospitals and integrated delivery networks (“IDNs”).

In the ambulatory care segment, our Vision Series products provide a complete, end-to-end solution for radiology group practices, imaging centers, multi-specialty groups and billing services. We believe that we are the only major independent vendor focused on the ambulatory care segment that owns and directly offers all three core components of a comprehensive image and information management system: PACS, RIS, and radiology revenue cycle management capabilities. These synergistic applications offer distributed image management, cohesive workflow and financial optimization for practices and imaging centers. Practices will have trouble remaining competitive without the efficiencies offered by these types of systems. We also believe that practices cannot afford to purchase these applications from multiple vendors due to the inherent complexities of managing multiple vendors’ products, multiple relationships, and multiple maintenance contracts. In addition to improved operating efficiencies, we believe that these systems help our customers better service their customers (i.e. referring/ordering physicians and patients) and grow their own practice and business.

In the acute care segment, we provide Web-based PACS, featuring advanced enterprise workflow, tight HIS/RIS/EMR integration, and a highly scalable design. We believe total cost of ownership is relatively low and helps produce an attractive return on investment. In addition, unlike many of our competitors, AMICAS’ PACS is already web-based, providing the customer the comfort of knowing that they are already on a current generation technology platform and supporting effective and efficient deployment and support characteristics.

We believe that our target market offers significant potential opportunities represented by a large and growing imaging services market with a low penetration of efficient image and information management systems. The growing need for and interest in teleradiology requires much of the kind of technology AMICAS offers the market as well. With our existing market presence, industry-recognized product and service offerings, experienced management team, strong financial condition and momentum, we believe that we are well-positioned to capitalize on the opportunities available today.

In 2007, we expanded our product offerings with the goal of further establishing ourselves as an innovative solution provider of image and information management-related needs for the healthcare industry. These new product offerings included a combination of technology acquisitions and internally developed solutions. Going forward, we plan to build upon these new developments by expanding our product distribution while continuing to invest in complementary products and services that help the businesses in our target market grow and gain further efficiency and effectiveness in their operations and marketing activities. We plan to achieve these objectives through a combination of internal expansion of existing operations and strategic partnerships and alliances. In addition, we expect to continue to consider selective acquisitions as a part of our corporate strategy. We intend to remain focused on delivering value to our customers and shareholders.

Products and Services

We offer a comprehensive suite of RIS, PACS, document management and revenue cycle management software solutions to radiology and other specialty healthcare providers in the ambulatory setting. These products are designed to automate image management, enterprise workflow, revenue cycle management, administrative, financial, and clinical information management functions of radiology group practices, ambulatory care facilities, and billing services, as well as single or multi-site imaging centers. Within acute care environments, we offer PACS and document management solutions that enable filmless and paperless radiology operations. Our solution offers integration to multi-vendor hospital information systems, radiology information systems and electronic medical

record systems products, as well as multi-specialty PACS services supporting additional medical imaging disciplines (e.g., cardiology through a partnership) and emerging technologies such as 3D visualization. Our offerings range from software and services only to full turnkey solutions that include technology, such as computed radiography, to transform an organization from an analog to digital operation.

In addition to our products, we offer a suite of customized services, including workflow consulting, project management, software implementation, systems integration, training and ongoing technical support for our software applications. We encourage our customers to purchase appropriate levels of professional services to transform their practices from current levels of competence, in both systems and know-how, to digital practices optimized for operating effectiveness and efficiency, as well as for top-flight service delivery and growth. Often, our customers find that the best path for clinical and business transformation involves incremental adoption of systems and know-how, where their final vision is attained through a well planned set of individually viable and valuable steps. Our modular offerings support an incremental approach to the adoption of technology-based solutions.

Vision Series Products

Vision Series RIS. Vision Series RIS is our Web-based radiology information system designed to address the administrative functions for capturing radiology orders, detailing the patient demographic information, scheduling appointments and resources, processing transcriptions and generating reports, as well as coding and preparing billing and reimbursement data.

Vision Series PACS. Vision Series PACS is our Web-based picture archiving and communications system designed to capture, store, manipulate, and distribute diagnostic images for radiologists, specialists, referring physicians, patients, and the entire healthcare enterprise. This system can scale from single radiologist staffed imaging centers to teleradiology operations to the largest acute care settings, managing hundreds of thousands of annual exams in large academic environments. The system includes advanced visualization and 3D capabilities, as well as an industry leading real-time workflow engine, RealTime Worklist™, that allows for workflow customization and personalization for diverse clinical environments.

Vision Series Document Management. Vision Series Document Management is a module of our solution designed to capture, digitize and associate paper records with other digital information. Today's diagnostic imaging environment involves existing and newly-generated paper-based information that needs to be integrated with the digital practice via an automated and workflow based system. This module, which we license from a third party and incorporate into our systems, enables our customers to move to paperless, as well as filmless, operations based upon our other Vision Series applications.

Vision Series Financials. Vision Series Financials is our comprehensive system of patient accounting and revenue cycle management that facilitates expedient and compliant claims submission, payor follow-up and other billing and accounts receivable management activities. Vision Series Financials provides modules for billing, coding, insurance processing, accounts receivable, collection management, EDI, and patient statements, helping our customers increase collections and decrease costs, and provides the information needed for effective business management.

Vision Reach. Vision Reach is our powerful zero-client Web-based tool designed specifically for the needs of the referring physician. Vision Reach uses the latest Web-based technologies to integrate the radiology report with key images to create a single "multi-media" report for referring physicians. Vision Reach uses common email to alert end-users (typically referring physicians) that results on their patients are available. The end-user may then authenticate into Vision Reach to gain access to their results, in the form of reports and key images. Vision Reach is designed to help our customers and prospects break down previously cumbersome IT barriers and grow their business by providing premium service to referring physicians and specialists through a zero-client Web-based architecture (no software or plug-ins required). We made Vision Reach generally available in 2007 and the product has been well received by the market. We also added radiology order entry functionality to Vision Reach in 2007 and we anticipate general availability for this new functionality in the first half of 2008.

EDI Services. Our core revenue cycle management products offer transaction-based EDI functions, including patient billing and insurance claims submission and remittance. The use of EDI can improve a healthcare

practice's cash flow by enabling more accurate and rapid submission of claims to third-party payors and more rapid receipt of corresponding reimbursements.

EDI offerings include:

- Automated patient statement and collection letter processing services;
- Automated electronic submission of insurance claims and claims editing to include electronic remittance of insurance payments and automatic posting of explanation of benefits data; and
- Automated electronic access to insurance and managed care plans to determine a patient's eligibility and covered benefits.

Computed Radiography. A significant portion of the imaging procedures that have remained analog in nature are those often referred to as plain films. In the past, most chest x-rays, abdominal plain films and x-rays used to rule out fractures from common injuries were done via plain films. Over the past few years, as imaging businesses started moving their practices to a digital environment, they began to recognize the need to move these plain film studies from analog to digital formats. One of the most affordable and efficient ways to do this is via the adoption of Computed Radiography, a technology that allows imaging organizations and businesses to retain much of their existing technology while starting to produce images in digital form that were formerly in analog format. In 2005, we began offering this technology (through a partnership with a third party) as part of our solution for helping these organizations move to a more efficient and productive digital operation.

Innovative New Products

We believe that innovation is a critical component to our success in a competitive market with a dramatic need for automation. During 2007, we made significant progress with a number of innovative products such as Vision Reach, RadStream, Insight Dashboards and Vision Series Financials. These products were derived through strategic technology acquisitions and internally developed solutions:

RadStream. In April of 2006, we announced a strategic technology acquisition resulting in the exclusive licensing and worldwide distribution rights to RadStream. RadStream is a next generation software product designed to accelerate radiology workflow, increase radiologist soft copy reading productivity and both improve and document communication of critical results reporting of radiology studies. The software was designed and developed by the Radiology Informatics Research Core at Cincinnati Children's Hospital Medical Center in collaboration with researchers at the University of Cincinnati College of Business. At Cincinnati Children's Hospital, RadStream improved radiology report turnaround by 40% and reduced interruptions to radiologists reading cases by nearly 25%. In 2007, we sold our first RadStream license and installed the solution at our first beta site. We anticipate making RadStream generally available for purchase in the first half of 2008.

Insight Dashboards. Insight Dashboards is our Web-based system providing business intelligence capabilities presented in a dashboard format. Insight Dashboards offers the analytics necessary for our customers to navigate through the pressures of continually changing competitive landscapes and regulatory environments. In 2007, we sold a number of Insight Dashboards licenses and installed the solution at several beta sites. We anticipate general availability of Insight Dashboards in the first quarter of 2008.

Vision Series Financials. In 2007, we acquired certain ownership rights to the IMAGINE radiology practice management software platform. Under the terms of the agreement, we purchased a copy of the source code to the IMAGINE radiology software and a comprehensive array of transition services from Technology Partners, Inc. The product was re-branded and is being developed by us as Vision Series Financials. Vision Series Financials is a next generation radiology practice management and billing software system designed to meet the challenges of today's complex radiology billing environment. We anticipate general availability of Vision Series Financials in the first half of 2008.

Professional Services: AMICAS Insight Solutions

We offer our professional services known as AMICAS Insight Solutions to provide additional services before, during and after installation of our software. We recognize that our customers can be more successful in realizing

their goals and objectives through a services offering and the use of intelligent software tools. AMICAS Insight Solutions includes project management, implementation, training, and support. We design these services based upon our customers' needs and expectations around our products that they have purchased. We utilize methodologies that are improved based upon our customer implementation experiences that are optimized via the utilization of well-trained and experienced staff. We believe that the customer obtains the greatest benefits from our products when they are implemented and supported by our AMICAS Insight Solutions offerings.

Technical Support

Software Support. Under the terms of our standard support agreement, our customers pay a periodic (e.g., monthly, quarterly, annually) support fee associated with the software modules. The support fee is generally a fixed percentage of the then-current list price of the licensed software at the time of contract signing. This support fee entitles the customer to telephone and Web-based technical support as well as software updates for their purchased modules, if and when updates are released.

Hardware Support. Customers may contract with us for maintenance of the hardware that runs their AMICAS software. In return for periodic maintenance fees, the customer is provided comprehensive telephone diagnostic support and on-site support. We subcontract with various third-party hardware support firms and manufacturers to help provide a significant amount of our hardware support services.

Future Products

We continue to invest in research and development in order to refine and expand our suite of RIS, PACS, and revenue cycle management applications within the Vision Series suite. We continue to extend the capabilities of the Vision Series through the addition of modules that help with workflow, business and operations visibility and service delivery including the addition of specialty applications, both internally developed and with integrations to solutions offered by our corporate partners. We believe that these additional capabilities will provide competitive advantages for our customers, especially those in penetrated locales where competing providers may already have digital solutions. Examples of existing and potential offerings include:

- Strong teleradiology capabilities;
- Extended functionality for referring physicians and for referring physician communications;
- Extended 3D visualization including advanced clinical applications;
- More complete integration of related clinical tools; and
- More extensive workflow capabilities.

Research and Development

Our research and development efforts are focused on new products using our Web-based platform, as well as maintaining the stability and competitiveness of our current product offerings. Our research and development organization consisted of 53 employees as of December 31, 2007.

In 2007, 2006 and 2005, our research and development expenses were \$8.5 million, \$8.7 million and \$9.0 million, or 17.1%, 17.6% and 17.1% of total revenues, respectively. There were no software development costs capitalized in 2007, 2006 or 2005.

Sales and Marketing

We market and sell our products in the United States primarily through a direct sales force, composed of 38 sales and marketing personnel as of December 31, 2007. We have marketing and sales personnel located in our Daytona Beach, Florida, and Boston, Massachusetts offices and in other cities around the country. We organize our sales force by region. Members of our sales organization participate in sales and product training that enables them to understand the specific needs and requirements of our prospective customers.

Within our existing customer base, we promote and sell system upgrades, product add-ons, ancillary products, support services, and EDI services. In addition, we target new customers principally through trade shows, direct mail campaigns, telemarketing, live seminars, Web-based seminars, and advertisements in various trade publications. Moreover, our senior personnel and members of management assist in sales and marketing initiatives to larger and more technically advanced prospective customers. Sales cycles generally range from an average of four to six months, to as many as six months to two years for large-scale or multi-location systems.

For each of the past three fiscal years, no single customer has accounted for more than 10% of total revenues.

Intellectual Property

We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions to protect our intellectual property and proprietary rights. These laws and procedures afford only limited protection.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and such problems may persist. There can be no assurance that our means of protecting our proprietary rights will be adequate. In addition, our competitors could independently develop similar technology, and if they are able to obtain a patent or other protection of their intellectual property, then we could be restricted with respect to the development of our own technology.

Some of our programs have been delivered to our customers along with their applicable source code, which is protected by contractual provisions. In other cases, we have entered into source code escrow agreements with a limited number of our customers requiring release of the applicable source code under certain limited conditions, including any bankruptcy proceeding by or against us, cessation of our business, or our failure to meet our contractual obligations. Our source code agreements typically enable the customer to utilize the source code for their internal use only.

We rely upon certain software that is licensed from third parties, including software that is integrated with some of our internally developed software and/or is used with some of our products to perform certain functions. There can be no assurance that these third-party software licenses will continue to be available to us on commercially reasonable terms, if at all, which could adversely affect our business, operating results and financial condition. In addition, there can be no assurance that third parties will not claim infringement by us with respect to our products, any parts thereof, or enhancements thereto.

We distribute our software under software license agreements that grant customers a nonexclusive, nontransferable, perpetual or, in some cases, a term, license to our products. Such agreements contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products.

Competition

Our principal competitors include international, national, and regional clinical, practice management and image management system vendors including medical device and film manufacturers. We believe that the larger, international and national vendors are broadening their markets to include both small and large healthcare service providers. In addition, we compete with national and regional providers of computerized billing, insurance processing, and record management services to healthcare practices, hospitals and integrated delivery networks or "IDNs". As the market for our products and services expands, additional competitors are likely to enter this market. We believe that the primary competitive factors in our markets are:

- Product features and functionality;
- Ongoing product enhancements;
- Price;
- Technology architecture and design;
- Customer service, support, and satisfaction;

- Distribution coverage and quality
- Customer satisfaction and customer reference sites; and
- Vendor reputation, including real and perceived financial stability and wherewithal.

We have experienced, and we expect to continue to experience, increased competition from current and potential competitors, many of whom have significantly greater financial, technical, marketing, distribution and other resources than us. Such competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion, and sale of their products than us. Also, certain current and potential competitors have greater name recognition or more extensive customer bases that could be leveraged, thereby gaining market share to our detriment. We expect to face additional competition as other established and emerging companies enter into the clinical and practice management software markets and as new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share, any of which would materially adversely affect our business, operating results, cash flows and financial condition.

Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing the ability of their products to address the needs of our existing and prospective customers. Further competitive pressures, such as those resulting from competitors' discounting of their products, may require us to reduce the price of our software and complementary products, which would materially and adversely affect our business, operating results, cash flows, and financial condition.

There can be no assurance that we will be able to compete successfully against current and future competitors, and the failure to do so would have a material adverse effect upon our business, operating results, cash flows and financial condition.

Privacy Issues

Because our customers use our applications and services to transmit and manage highly sensitive and confidential health information, we must address the security and confidentiality concerns of our customers and their patients. To enable the use of our applications and services for the transmission of sensitive and confidential medical information, we use various methods to ensure an appropriate level of security. These methods generally include:

- Security that requires both user identification numbers (“IDs”) and passwords to access our systems locally or remotely, with the potential of requiring digital certificates for remote, Internet-based access, should such measures be required;
- Encryption of data transmitted over the Internet;
- Use of a mechanism for preventing unauthorized access to private data resources on our internal network, commonly referred to as a “firewall”;
- Logging on reporting capabilities; and
- Data integrity mechanisms.

The level of data encryption used by our products is in compliance with the encryption guidelines set forth in rules regarding security and electronic signature standards in connection with the Health Insurance Portability and Accountability Act of 1996 (see “Healthcare Regulation” below). We also encourage our customers to implement their own firewall and security procedures to protect the confidentiality of information being transferred into and out of their computer networks.

Internally, we work to ensure the safe handling of confidential data by employees in our electronic services department by:

- Using individual network user IDs and passwords for each employee handling electronic data within our internal network; and

- Requiring each employee to sign an agreement to comply with all Company policies, including our policy regarding the handling of confidential information.

We monitor proposed regulations that might affect our applications and services to ensure our compliance with such regulations when and if they are implemented.

Government Regulation

United States Food and Drug Regulation

In the United States, radiology and medical image and information management systems are regulated as medical devices. Before a new medical device can be marketed, its manufacturer must either obtain marketing clearance through a premarket notification under Section 510(k) of the Federal Food, Drug and Cosmetic Act or marketing approval of a premarket approval application, or PMA. The information that must be submitted to the FDA in order to obtain clearance or approval to market a new medical device varies depending on how the medical device is classified by the FDA. Medical devices are classified into one of three classes on the basis of the controls deemed by the FDA to be necessary to reasonably ensure their safety and effectiveness. Class I devices are subject to general controls, including labeling, premarket notification and adherence to the quality systems regulations, or QSRs, which sets forth device-specific good manufacturing practices. Class II devices are subject to general controls and special controls, including performance standards and post-market surveillance. Class III devices are subject to most of the previously identified requirements as well as to premarket approval.

A 510(k) premarket notification must demonstrate that the device in question is substantially equivalent to another legally marketed device, or predicate device, that does not require premarket approval. Most 510(k)s do not require clinical data for clearance, but a minority do require clinical data support. The FDA has a performance goal for issuing a decision letter within 90 days of receipt of a 510(k) if it has no additional questions, however, the FDA does not always meet the applicable performance goal review time. In addition, requests for additional data, including clinical data, will increase the time necessary to review the notice. Most Class I devices and many Class II devices are exempt from the 510(k) requirement. Modifications to a 510(k)-cleared medical device may require the submission of another 510(k) or a PMA if the changes could significantly affect the safety or effectiveness or constitute a major change in the intended use of the device. Our marketed products are Class I or II medical devices.

The PMA process is more complex, costly and time consuming than the 510(k) clearance procedure. A PMA must be supported by more detailed scientific evidence than a 510(k) notice, including clinical data to demonstrate the safety and efficacy of the device. The FDA has performance goal review times for issuing a decision letter within 180 days of having accepted the PMA for filing, but if it has questions the PMA can take several years to complete and there is no assurance that any submitted PMA will ever be approved. Changes to the device or its manufacturing process may require the prior approval of a supplemental PMA.

After a device is placed on the market, numerous regulatory requirements apply. These include compliance with:

- the QSRs, which require manufacturers to follow design, testing, control, documentation and other quality assurance procedures during the manufacturing process;
- regulations which prohibit the promotion of products for unapproved or “off-label” uses and impose other restrictions on labeling; and
- reporting regulations, which require that manufacturers report to the FDA certain adverse events that may be attributed to the medical device.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include, among other things, warning letters; fines, injunctions, and civil penalties; operating restrictions, partial suspension or total shutdown of production; refusal to grant or withdrawal of 510(k) clearance or PMA approvals; and criminal prosecution.

Health Insurance Portability and Accountability Act of 1996

The Health Insurance Portability and Accountability Act of 1996, and the regulations implementing its administrative simplification provisions, (“HIPAA”) include five healthcare-related standards governing, among other things:

- Electronic transactions involving healthcare information;
- The privacy of individually identifiable patient information, called “protected health information,” or “PHI”; and
- The security of PHI.

HIPAA regulations governing the electronic exchange of information establish a standard format for the most common healthcare transactions, including claims, remittances, eligibility, and claims status. Many of our customers are required to comply with the transaction standards as they exchange health-related administrative information. Our products and services must facilitate compliance with these standards.

HIPAA also establishes privacy standards for the protection of PHI used and disclosed by certain healthcare organizations or “Covered Entities.” Covered Entities are health plans, health care clearing houses, and health care providers who conduct certain health care transactions electronically. Covered Entities must ensure that all uses and disclosures of PHI are permissible under HIPAA and comply with other aspects of the rule. We are not a Covered Entity, however many of our customers are. As a result, a substantial part of our business involves the receipt of PHI. We have access to PHI when we assist our Covered Entity customers with the processing of healthcare transactions and the provision of technical services such as software maintenance. When we provide such services involving the use or disclosure of PHI, we are considered a “Business Associate” of a customer. HIPAA requires a Business Associate to sign a specific agreement (called a “Business Associate Agreement”) and to provide assurances that it will safeguard PHI from misuse in the course of providing services. Business Associates also must agree to assist Covered Entities with various HIPAA compliance obligations such as facilitating an accounting of PHI disclosures for the Covered Entity’s patients. Careful review of all Business Associate agreements is critical to ensure that they do not impose additional contractual obligations on us. Over-reaching Business Associate agreements or the failure to execute a Business Associate agreement when one is required, may result in contractual liability or regulatory risk.

The security standards enacted pursuant to HIPAA require Covered Entities to implement administrative, physical, and technical safeguards to protect the confidentiality, integrity and availability of PHI including electronic PHI. The security standards may require us to enter into agreements with certain of our customers and business partners restricting the dissemination of PHI and requiring implementation of specified security measures. The security standards also inform the design of our products and systems.

HIPAA has required and may continue to require significant business and operational changes on the part of our customers and on our part and many require additional changes in the future. HIPAA-mandated changes to our applications, services, policies, and procedures may require us to charge higher prices to our customers or may also affect our customers’ purchasing practices. In addition, many states have patient confidentiality laws that are more restrictive than HIPAA and that could impose additional obligations with regard to the use and disclosure of PHI.

Compliance with Fraud and Abuse Laws

Once our products are sold, we must comply with various U.S. federal and state laws, rules and regulations pertaining to healthcare fraud and abuse, including anti-kickback laws and physician self-referral laws, rules and regulations. Violations of the fraud and abuse laws are punishable by criminal and civil sanctions, including, in some instances, exclusion from participation in federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs, workers’ compensation programs and TRICARE.

Anti-Kickback Statute

The federal Anti-Kickback Statute prohibits persons from knowingly or willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce —

- the referral of an individual for a service or product for which payment may be made by Medicare, Medicaid or other government-sponsored healthcare program; or
- purchasing, ordering, arranging for, or recommending the ordering of, any service or product for which payment may be made by a government-sponsored healthcare program.

The definition of “remuneration” has been broadly interpreted to include anything of value, including such items as gifts, certain discounts, waiver of payments, and providing anything at less than its fair market value. In addition, several courts have interpreted the law to mean that if “one purpose” of an arrangement is intended to induce referrals, the statute is violated.

The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. The statutory penalties for violating the Anti-Kickback Statute include imprisonment for up to five years and criminal fines of up to \$25,000 per violation. In addition, through application of other laws, conduct that violates the Anti-Kickback Statute can also give rise to False Claims Act lawsuits, civil monetary penalties and possible exclusion from Medicare and Medicaid and other federal healthcare programs. In addition to the Federal Anti-Kickback Statute, many states have their own anti-kickback laws. Often, these laws closely follow the language of the federal law, although they do not always have the same scope, exceptions, safe harbors or sanctions. In some states, these anti-kickback laws apply not only to payment made by a government health care program but also with respect to other payors, including commercial insurance companies.

Government officials have focused recent kickback enforcement efforts on, among other things, the sales and marketing activities of healthcare companies, including medical device manufacturers, and recently have brought cases against individuals or entities with personnel who allegedly offered unlawful inducements to potential or existing customers in an attempt to procure their business. This trend is expected to continue. Settlements of these cases by healthcare companies have involved significant fines and/or penalties and in some instances criminal plea agreements.

Physician Self-Referral Laws

The federal ban on physician self-referrals, commonly known as the “Stark Law,” prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain “designated health services” if the physician or an immediate family member of the physician has any financial relationship with the entity. The Stark Law also prohibits the entity receiving the referral from billing for any good or service furnished pursuant to an unlawful referral, and any person collecting any amounts in connection with an unlawful referral is obligated to refund these amounts. A person who engages in a scheme to circumvent the Stark Law’s referral prohibition may be fined up to \$100,000 for each such arrangement or scheme. The penalties for violating the Stark Law also include civil monetary penalties of up to \$15,000 per service and possible exclusion from federal healthcare programs. In addition to the Stark Law, many states have their own self-referral laws. Often, these laws closely follow the language of the federal law, although they do not always have the same scope, exceptions, safe harbors or sanctions. In some states these self-referral laws apply not only to payment made by a federal health care program but also with respect to other payors, including commercial insurance companies. In addition, some state laws require physicians to disclose any financial interest they may have with a healthcare provider to their patients when referring patients to that provider even if the referral itself is not prohibited.

Other Fraud and Abuse Laws

The federal False Claims Act, or FCA prohibits any person from knowingly presenting, or causing to be presented, a false claim or knowingly making, or causing to be made, a false statement to obtain payment from the federal government. Those found in violation of the FCA can be subject to fines and penalties of three times the damages sustained by the government, plus mandatory civil penalties of between \$5,500 and \$11,000 for each separate false claim. Actions filed under the FCA can be brought by any individual on behalf of the government, a “qui tam” action, and this individual, known as a “relator” or, more commonly, as a “whistleblower,” may share in any amounts paid by the entity to the government in damages and penalties or by way of settlement. In addition, certain states have enacted laws modeled after the FCA, and this legislative activity is expected to increase. Qui tam actions have increased significantly in recent years, causing greater numbers of healthcare companies, including

medical device manufacturers, to defend false claim actions, pay damages and penalties or be excluded from Medicare, Medicaid or other federal or state healthcare programs as a result of investigations arising out of such actions.

The OIG also has authority to bring administrative actions against entities for alleged violations of a number of prohibitions, including the Anti-Kickback Statute and the Stark Law. The OIG may seek to impose civil monetary penalties or exclusion from the Medicare, Medicaid and other federal healthcare programs. Civil monetary penalties can range from \$2,000 to \$50,000 for each violation or failure plus, in certain circumstances, three times the amounts claimed in reimbursement or illegal remuneration. Typically, exclusions last for five years.

In addition, we must comply with a variety of other laws, such as laws prohibiting false claims for reimbursement under Medicare and Medicaid, all of which can also be triggered by violations of federal anti-kickback laws; the Health Insurance Portability and Accounting Act of 1996, which makes it a federal crime to commit healthcare fraud and make false statements; and the Federal Trade Commission Act and similar laws regulating advertisement and consumer protections.

Third-Party Reimbursement

Because we expect to receive payment for our products directly from our customers, we do not anticipate relying directly on payment for any of our products from third-party payors, such as Medicare, Medicaid, private insurers and managed care companies. However, our business will be affected by policies administered by federal and state governmental authorities, such as Medicare and Medicaid, as well as private payors, which often follow the policies of these public programs. For example, our business will be indirectly impacted by the ability of a hospital or medical facility to obtain coverage and third-party reimbursement for procedures performed using our products. These third-party payors may deny reimbursement if they determine that a device used in a procedure was not medically necessary, was not used in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication.

Access to Our Filings with the Securities and Exchange Commission

Our Internet address is www.amicas.com. The information on our website is not a part of, or incorporated into, this Annual Report on Form 10-K. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available, without charge, on our website as soon as reasonably practicable after they are filed electronically with, or otherwise furnished to, the Securities and Exchange Commission.

Our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, and the charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of our board of directors are available on the Investor Relations section of our website. Stockholders may request a free copy of any of these documents by writing to Investor Relations, AMICAS, Inc., 20 Guest Street, Suite 400, Boston, MA 02135-2040.

Employees

As of December 31, 2007, our workforce consisted of 253 employees, including 38 in sales and marketing, 131 in customer support and services, 53 in research and development and 31 in finance, senior management, administration, human resources, and information technology. None of our employees is subject to a collective bargaining agreement. We consider our relations with our employees to be satisfactory.

Our executive officers as of March 12, 2008 are:

Stephen N. Kahane

Stephen N. Kahane, M.D., M.S., age 50, has served as our Chief Executive Officer since September 2004 and as a director since March 2001. Effective December 31, 2007, Dr. Kahane also assumed the responsibilities of President. From March 2001 until September 2004, Dr. Kahane served as our Vice Chairman and Chief Strategy

Officer. From November 1999 until March 2001, Dr. Kahane served as President of E-Health and then as Chief Strategy Officer of our medical software division. From October 1996 until November 1999, he served as President and Chief Executive Officer of Datamedic Holding Corp., a practice management and clinical software company specializing in ophthalmology and general medical practices. We acquired Datamedic in 1999. Prior to joining Datamedic, Dr. Kahane was a co-founder and senior executive at a clinical software company, Clinical Information Advantages, Inc. Dr. Kahane also trained and served on the faculty at The Johns Hopkins Medical Center.

Joseph D. Hill

Joseph D. Hill, age 45, has served as our Senior Vice President and Chief Financial Officer since October 2004. Prior to this, from April 2003 until March 2004, Mr. Hill served as Vice President and Chief Financial Officer of Dirig Software, an application performance management solutions provider based in Nashua, New Hampshire. In February 2004, Dirig Software was acquired by Allen Systems Group of Naples, Florida. From August 2000 until June 2002, Mr. Hill served as Vice President and Chief Financial Officer of Maconomy Corporation, a Web-based business management solutions provider with headquarters in Copenhagen, Denmark and Marlborough, Massachusetts. Prior to joining Maconomy, Mr. Hill was Vice President and Chief Financial Officer of Datamedic Holding Corp., a practice management and clinical software company specializing in ophthalmology and general medical practices. We acquired Datamedic in 1999.

Medical Division Sale

On January 3, 2005, we completed the sale of substantially all of the assets and liabilities of our medical division together with certain other assets, liabilities, properties and rights of ours relating to our anesthesiology business, together, (the "Medical Division"), to Cerner Corporation (the "Asset Sale"). The Asset Sale was completed in accordance with the terms and conditions of the Asset Purchase Agreement between us and Cerner dated as of November 15, 2004 ("Purchase Agreement"). As consideration for the Asset Sale, we received \$100 million in cash, subject to a post-closing purchase price reduction of \$1.6 million. In 2005, we recorded a net gain on the sale of \$46.3 million, net of income taxes of \$33.9 million.

On January 3, 2005, we entered into a transition services agreement with Cerner in connection with the sale of the Medical Division. Pursuant to the transition services agreement, in exchange for specified fees, we provided services to Cerner including accounting, tax, information technology, customer support and use of facilities, and Cerner provided services to us such as EDI services including patient billing and claims processing, and use of facilities. Under the agreement, certain of the Company services that we provided terminated on April 30, 2006 and certain Cerner-provided services were expected to be provided through March 31, 2009. On September 27, 2007, we and Cerner mutually agreed to terminate the transition services agreement, effective May 1, 2007.

In connection with the Purchase Agreement with Cerner, we assigned its agreement with a third-party provider of EDI services for patient claims processing to Cerner. For the months after April 2005, the annual processing services fee ranged from \$0.2 million to \$0.3 million based on our and Cerner's combined volume usage in the last month of the preceding year. We also assigned its patient statement agreement with National Data Corp. ("NDC") to Cerner. The agreement generally provided for us to send minimum quarterly volumes and to pay a minimum quarterly fee of \$0.6 million to Cerner through March 2006. Thereafter, the minimum quarterly volume commitment was to be reduced by 1.25% per quarter until April 2009. On September 27, 2007, in connection with the termination of the transition services agreement, we and Cerner mutually agreed that we have no further obligation to pay any minimum quarterly fees, and Cerner has no obligation to provide services. As a result, we recognized approximately \$0.5 million of previously recorded unearned discount as a reduction of cost of maintenance and services during the third quarter of fiscal year 2007.

In connection with the Purchase Agreement, each company has indemnified the other with respect to specified liabilities and breaches of certain representations and warranties. For a period of five years from the closing date, we cannot, except in certain limited situations, compete with the Medical Division, and we cannot induce a Medical Division customer or prospect to terminate its relationship with Cerner. In addition, for a period of five years from closing we cannot directly or indirectly attempt to induce any former Medical Division employee to work for us, and we are prohibited from hiring certain specified former Medical Division employees.

Item 1A. Risk Factors

Warning About Forward-Looking Statements and Risk Factors That May Affect Future Results

Our disclosure and analysis in this Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that set forth anticipated results based on management's plans and assumptions. From time to time, we may also provide forward-looking statements in other materials that we release to the public as well as oral forward-looking statements. Forward-looking statements discuss our strategy, expected future financial position, results of operations, cash flows, financing plans, intellectual property, competitive position, and plans and objectives of management. We often use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," "should," "might," "may" and similar expressions to identify forward-looking statements. Additionally, forward-looking statements include those relating to future actions, prospective products, future performance, financing needs, liquidity, sales efforts, expenses, interest rates and the outcome of contingencies, and financial results.

We cannot guarantee that any forward-looking statement will be realized. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected by our forward-looking statements. You should bear this in mind as you consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses. These are important factors that, individually or in the aggregate, could cause our actual results to differ materially from expected and historical results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

Our operating results will vary from period to period. In addition, we have experienced losses in the past and may never achieve consistent profitability.

Our operating results will vary significantly from quarter to quarter and from year to year. We had net losses of \$0.9 million and \$1.0 million for the years ended December 31, 2007 and 2006, respectively, and net income of \$44.2 million (which included a \$46.3 million net gain from the sale of the Medical Division) for the year ended December 31, 2005. We also had a net loss of \$12.5 million for the year ended December 31, 2004. On a continuing operations basis, we had losses of \$0.9 million, \$1.3 million, \$2.0 million, \$26.5 million and \$10.7 million, respectively, for the years ended December 31, 2007, 2006, 2005, 2004 and 2003.

Our operating results have been and/or may be influenced significantly by factors such as:

- release of new products, product upgrades and services, and the rate of adoption of these products and services by new and existing customers;
- timing, cost and success or failure of our new product and service introductions and upgrade releases;
- length of sales and delivery cycles;
- size and timing of orders for our products and services;
- changes in the mix of products and/or services sold;
- availability of specified computer hardware for resale;
- deferral and/or realization of deferred software license and system revenues according to contract terms;
- interpretations of accounting regulations, principles or concepts that are or may be considered relevant to our business arrangements and practices;
- changes in customer purchasing patterns;

- changing economic, political and regulatory conditions, particularly with respect to the information technology-spending environment;
- competition, including alternative product and service offerings, and price pressure;
- rates and timing of customer attrition;
- timing of, and charges or costs associated with, mergers, acquisitions or other strategic events or transactions, completed or not completed;
- timing, cost and level of advertising and promotional programs;
- changes of accounting estimates and assumptions used to prepare the prior periods' financial statements and accompanying notes, and management's discussion and analysis of financial condition and results of operations (e.g., our valuation of assets and estimation of liabilities); and
- uncertainties concerning threatened, pending and new litigation against us, including related professional services fees.

Quarterly and annual revenues and operating results are highly dependent on the volume and timing of the signing of license agreements and product deliveries during each quarter, which are very difficult to forecast. A significant portion of our quarterly sales of software product licenses and computer hardware is concluded in the last month of the fiscal quarter, generally with a concentration of our quarterly revenues earned in the final ten business days of that month. Also, our projections for revenues and operating results include significant sales of new product and service offerings, including our image management systems, Vision Series PACS, our radiology information system, Vision Series RIS, and our revenue cycle management system, Vision Series Financials, which may not be realized. Due to these and other factors, our revenues and operating results are very difficult to forecast. A major portion of our costs and expenses, such as personnel and facilities, is of a fixed nature and, accordingly, a shortfall or decline in quarterly and/or annual revenues typically results in lower profitability or losses. As a result, comparison of our period-to-period financial performance is not necessarily meaningful and should not be relied upon as an indicator of future performance. Due to the many variables in forecasting our revenues and operating results, it is likely that our results for any particular reporting period will not meet our expectations or the expectations of public market analysts or investors. Failure to attain these expectations would likely cause the price of our common stock to decline.

If our new and existing products, including product upgrades, and services do not achieve and maintain sufficient market acceptance, our business, financial condition, cash flows, revenues, and operating results will suffer.

The success of our business depends and will continue to depend in large part on the market acceptance of:

- existing products and services, such as our Vision Series suite of products, and related product and service offerings;
- new products and services, including Insight Dashboards, Vision Reach, Vision Series Financials and RadStream; and
- enhancements to our existing products, support and services, including Vision Series RIS and Vision Series PACS.

There can be no assurance that our customers will accept any of these products, product upgrades, support or services. In addition, even if our customers accept our products and services initially, we cannot assure you that they will continue to purchase our products and services at levels that are consistent with, or higher than, past quarters. Customers may significantly reduce their relationships with us or choose not to expand their relationship with us. In addition, any pricing strategy that we implement for any of our products, product upgrades, or services may not be economically viable or acceptable to our target markets. Failure to achieve or to sustain significant penetration in our target markets with respect to any of our products, product upgrades, or services could have a material adverse effect on our business.

Achieving and sustaining market acceptance for our products, product upgrades and services is likely to require substantial marketing and service efforts and the expenditure of significant funds to create awareness and demand by participants in the healthcare industry. In addition, deployment of new or newly integrated products or product upgrades may require the use of additional resources for training our existing sales force and customer service personnel and for hiring and training additional sales and customer service personnel. There can be no assurance that the revenue opportunities for our new products, product upgrades and services will justify the amounts that we spend for their development, marketing and rollout.

If we are unable to sell our new and next-generation software products to healthcare providers that are in the market for healthcare information and/or image management systems, such inability will likely have a material adverse effect on our business, revenues, operating results, cash flows and financial condition. If anticipated software sales and services do not materialize, or if we lose customers or experience significant declines in orders from our customers, our revenues would decrease over time due to the combined effects of attrition of existing customers and a shortfall in new client additions.

National and regional competitors could cause us to lower our prices or to lose customers.

Our principal competitors include both national and regional practice management and clinical systems vendors. Until recently, larger, national vendors have targeted primarily large healthcare providers. We believe that the larger, national vendors may broaden their markets to include both small and large healthcare providers. In addition, we compete with national and regional providers of computerized billing, insurance processing and record management services to healthcare practices. As the market for our products and services expands, additional competitors are likely to enter this market. We believe that the primary competitive factors in our markets are:

- product features and functionality;
- customer service, support and satisfaction;
- price;
- ongoing product enhancements; and
- vendor reputation and stability.

We have experienced, and we expect to continue to experience, increased competition from current and potential competitors, many of which have significantly greater financial, technical, marketing and other resources than us. Such competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Also, certain current and potential competitors have greater name recognition or more extensive customer bases that could be leveraged, which could cause us to lose customers. We expect additional competition as other established and emerging companies enter into the practice management and clinical software markets and as new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, losses in customers, reduced gross margins and loss of market share, any of which could materially adversely affect our business, operating results, cash flows and financial condition.

Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their abilities to address the needs of our existing and prospective customers. Further competitive pressures, such as those resulting from competitors' discounting of their products, may require us to reduce the price of our software and complementary products, which would materially adversely affect our business, operating results, cash flows and financial condition. There can be no assurance that we will be able to compete successfully against current and future competitors, and our failure to do so would have a material adverse effect upon our business, operating results, cash flows and financial condition.

We rely on some of our existing customers to serve as reference sites for us in developing and expanding relationships with other customers and potential customers, and if the customers who serve as reference sites become unwilling to do so, our ability to obtain new customers or to expand customer relationships could be materially harmed.

As an integral part of the process of establishing new client relationships and expanding existing relationships, we rely on current clients who agree to serve as reference sites for potential customers of our products and services. The reference sites allow potential customers to observe the operation of our products and services in a true-to-life environment and to ask questions of actual customers concerning the functionality, features and benefits of our product and service offerings. We cannot assure you that the sites that we currently have will continue to be willing to serve as reference sites, nor that the availability of the reference sites will be successful in establishing or expanding relationships with existing or new customers. If we lose reference sites and are unable to establish new ones in a timely manner, this could have a material adverse effect on our business and results of operations.

Changes in the regulatory and economic environment in the healthcare industry could cause us to lose revenue and incur substantial costs to comply with new regulations.

The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. These factors affect the purchasing practices and operations of healthcare organizations. Changes in current healthcare financing and reimbursement systems could require us to make unplanned enhancements of applications or services, or result in delays or cancellations of orders or in the revocation of endorsement of our services by our strategic partners and others. Changes in the federal reimbursement regulations have been made, and federal and state legislatures have periodically considered programs to further reform or amend the U.S. healthcare system. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in our applications and services.

As the cost of healthcare continues to rise, the government and other payers may make adjustments to their reimbursement policies for certain healthcare services and/or may make certain requirements of certain healthcare service provider organizations and businesses such that monies available for investment in image and information management products and services may decrease. While we believe that the pressure on such healthcare organizations to operate as efficiently and effectively as possible should drive the need for AMICAS products and services, certain changes in existing reimbursement policies may have the opposite effect. Any significant reduction in reimbursement amounts puts at risk our customers and prospects ability and inclination to pay for our products and services. Regulations that require our customers and prospects to invest and spend their monies in other areas puts at risk their ability and inclination to pay for our products and services as well. The Deficit Reduction Act of 2005, signed into law on February 8, 2006, is an example of a change to reimbursement policies that may have a negative impact on our target market's ability and/or inclination to acquire our products and services.

If the marketplace demands subscription pricing and/or application service provider, or ASP, delivered offerings, our revenues may be adversely impacted.

We currently derive a substantial portion of our revenues from traditional software license, maintenance and service fees, as well as from the resale of computer hardware. Today, most customers pay an initial license fee for the use of our products, in addition to a periodic maintenance fee. Increased marketplace demands for subscription pricing, multi-year financing arrangements, and/or application service provider offerings, have caused us to adjust our strategy accordingly, by offering a higher percentage of our products and services through these means. Shifting to subscription pricing, multi-year financing arrangements, and/or application service provider offerings could materially adversely impact our financial condition, cash flows and quarterly and annual revenues and results of operations, as our revenues would initially decrease substantially. We cannot assure you that the marketplace will not embrace subscription pricing and/or application service provider offerings.

Our business could suffer if our products and services contain errors, experience failures, result in loss of our customers' data or do not meet customer expectations.

The products and services that we offer are inherently complex. Despite testing and quality control, we cannot be certain that errors will not be found in prior, current or future versions, or enhancements of our products and services. We also cannot assure you that our products and services will not experience partial or complete failure, especially with respect to our new product or service offerings. It is also possible that as a result of any of these errors and/or failures, our customers may suffer loss of data. The loss of business, medical, diagnostic, or patient data or the loss of the ability to process data for any length of time may be a significant problem for some of our customers who have time-sensitive or mission-critical practices. We could face breach of warranty or other claims or additional development costs if our software contains errors, if our customers suffer loss of data or are unable to process their data, if our products and/or services experience failures, do not perform in accordance with their documentation, or do not meet the expectations that our customers have for them. Even if these claims do not result in our having any liability, investigating and defending against them could be expensive and time-consuming and could divert management's attention away from our operations. In addition, negative publicity caused by these events may delay or reduce market acceptance of our products and services, including unrelated products and services. Such errors, failures or claims could also cause us to lose customers or to experience significant decreases in orders from existing customers, and could materially adversely affect our business, revenues, operating results, cash flows and financial condition.

Our competitive position could be significantly harmed if we fail to protect our intellectual property rights from third-party challenges.

Our ability to compete depends in part on our ability to protect our intellectual property rights. We rely on a combination of copyright, patent, trademark, and trade secret laws and restrictions on disclosure to protect the intellectual property rights related to our software applications. Most of our software technology is not patented and existing copyright laws offer only limited practical protection. Our practice is to require all new employees to sign a confidentiality agreement and most of our employees have done so. However, not all existing employees have signed confidentiality agreements. In addition, third parties with whom we share confidential information are required to sign confidentiality agreements. We cannot assure you that the legal protections that we rely on will be adequate to prevent misappropriation of our technology.

Further, we may need to bring lawsuits or pursue other legal or administrative proceedings to enforce our intellectual property rights. Generally, lawsuits and proceedings of this type, even if successful, are costly, time consuming and could divert our personnel and other resources away from our business, which could harm our business.

Moreover, these protections do not prevent independent third-party development of competitive technology or services. Unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring use of our technology is difficult, and we cannot assure you that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

Intellectual property infringement claims against us could be costly to defend and could divert our management's attention away from our business.

As the number of software products and services in our target markets increases and as the functionality of these products and services overlaps, we are increasingly subject to the threat of intellectual property infringement claims. Any infringement claims alleged against us, regardless of their merit, will be time-consuming and expensive to defend. Infringement claims will also divert our management's attention and resources and could also cause delays in the delivery of our products and services to our customers. Settlement of any infringement claims could require us to enter into royalty or licensing agreements on terms that are costly or cost-prohibitive. If a claim of infringement against us was successful and if we were unable to license the infringing or similar technology or redesign our products and services to avoid infringement, our business, financial condition, cash flows, and results of operations will be harmed.

We may undertake additional acquisitions, which may involve significant uncertainties and may increase costs and divert management resources from our core business activities, or we may fail to realize anticipated benefits of such acquisitions.

We may undertake additional acquisitions if we identify companies with desirable applications, products, services, businesses or technologies. We may not achieve any of the anticipated synergies and other benefits that we expected to realize from these acquisitions. In addition, software companies depend heavily on their employees to maintain the quality of their software offerings and related customer services. If we are unable to retain the acquired companies' personnel or integrate them into our operations, the value of the acquired applications, products, services, distribution capabilities, business, technology, and/or customer base could be compromised. The amount and timing of the expected benefits of any acquisition are also subject to other significant risks and uncertainties. These risks and uncertainties include:

- our ability to cross-sell products and services to customers with whom we have established relationships and those with whom the acquired business had established relationships;
- diversion of our management's attention from our existing business;
- potential conflicts in customer and supplier relationships;
- our ability to coordinate organizations that are geographically diverse and may have different business cultures;
- dilution to existing stockholders if we issue equity securities in connection with acquisitions;
- assumption of liabilities or other obligations in connection with the acquisition; and
- compliance with regulatory requirements.

Further, our profitability may also suffer because of acquisition-related costs and/or amortization or impairment of intangible assets.

Technology solutions may change faster than we are able to update our technologies, which could cause a loss of customers and have a negative impact on our revenues.

The information technology market in which we compete is characterized by rapidly changing technology, evolving industry standards, emerging competition and the frequent introduction of new services, software and other products. Our success depends partly on our ability to:

- develop new or enhance existing products and services to meet the changing needs of our customers and the marketplace in a timely and cost-effective way; and
- respond effectively to technological changes, new product offerings, product enhancements and new services of our competitors.

We cannot be sure that we will be able to accomplish these goals. Our development of new and enhanced products and services may take longer than originally expected, require more testing than originally anticipated and require the acquisition of additional personnel and other resources. In addition, there can be no assurance that the products and/or services we develop or license will be able to compete with the alternatives available to our customers. Our competitors may develop products or technologies that are better or more attractive than our products or technologies, or that may render our products or technologies obsolete. If we do not succeed in adapting our products, technology and services or developing new products, technologies and services, our business could be harmed.

Our inability to renew, or make material modifications to, agreements with our third-party product and service providers could lead to a loss of customers and have a negative impact on our revenues.

Some of our customers demand the ability to acquire a variety of products from one provider. Some of these products are not owned or developed by us. Through agreements with third parties, we currently resell the desired hardware, software and services to these customers. However, in the event these agreements are not renewed or are

renewed on less favorable terms, we could lose sales to competitors who market the desired products to these customers or recognize less revenue. If we do not succeed in maintaining our relationships with our third-party providers, our business could be harmed.

The nature of our products and services exposes us to product liability claims that may not be adequately covered by insurance or contractual indemnification.

As a product and service provider in the healthcare industry, we operate under the continual threat of product liability claims being brought against us. Errors or malfunctions with respect to our products or services could result in product liability claims. In addition, certain agreements require us to indemnify and hold others harmless against certain matters. Although we believe that we carry adequate insurance coverage against product liability claims, we cannot assure you that claims in excess of our insurance coverage will not arise. In addition, our insurance policies must be renewed annually. Although we have been able to obtain what we believe to be adequate insurance coverage at an acceptable cost in the past, we cannot assure you that we will continue to be able to obtain adequate insurance coverage at an acceptable cost.

In many instances, agreements which we enter into contain provisions requiring the other party to the agreement to indemnify us against certain liabilities. However, any indemnification of this type is limited, as a practical matter, to the creditworthiness of the indemnifying party. If the contractual indemnification rights available under such agreements are not adequate, or inapplicable to the product liability claims that may be brought against us, then, to the extent not covered by our insurance, our business, operating results, cash flows and financial condition could be materially adversely affected.

We may be subject to claims resulting from the activities of our strategic partners.

We rely on third parties to provide certain services and products critical to our business. For example, we use national clearinghouses in the processing of insurance claims and we outsource some of our hardware maintenance services and the printing and delivery of patient billings for our customers. We also sell third-party products, several of which manipulate clinical data and information. We also have relationships with certain third parties where these third parties serve as sales channels through which we generate a portion of our revenues. Due to these third-party relationships, we could be subject to claims as a result of the activities, products, or services of these third-party service providers even though we were not directly involved in the circumstances leading to those claims. Even if these claims do not result in liability to us, defending against and investigating these claims could be expensive and time-consuming, divert personnel and other resources from our business and result in adverse publicity that could harm our business.

We are subject to government regulation and legal uncertainties, compliance with which could have a material adverse effect on our business.

HIPAA

Federal regulations impact the manner in which we conduct our business. We have been, and may continue to be, required to expend additional resources to comply with regulations under the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”). The total extent and amount of resources to be expended is not yet known. Because some of these regulations are relatively new, there is uncertainty as to how they will be interpreted and enforced.

Although we have made, and will continue to make, a good faith effort to ensure that we comply with, and that our future products enable compliance with, applicable HIPAA requirements, we may not be able to conform all of our operations and products to such requirements in a timely manner, or at all. The failure to do so could subject us and our customers to penalties and damages, as well as civil liability and criminal sanctions to the extent we are a business associate of a covered entity or regulated directly as a covered entity. In addition, any delay in developing or failure to develop products and/or deliver services that would enable HIPAA compliance for our current and prospective customers could put us at a significant disadvantage in the marketplace. Accordingly, our business, and the sale of our products and services, could be materially harmed by failures with respect to our implementation of HIPAA regulations.

Other E-Commerce Regulations

We may be subject to additional federal and state statutes and regulations in connection with offering services and products via the Internet. On an increasingly frequent basis, federal and state legislators are proposing laws and regulations that apply to Internet commerce and communications. Areas being affected by these regulations include user privacy, pricing, content, taxation, copyright protection, distribution, and quality of products and services. To the extent that our products and services are subject to these laws and regulations, the sale of our products and services could be harmed.

FDA

The United States Food and Drug Administration, or FDA, is responsible for ensuring the safety and effectiveness of medical devices under the 1976 Medical Device Amendments to the Food, Drug and Cosmetic Act, as well as the 1990 Safe Medical Devices Act, and the Food and Drug Administration Modernization Act of 1997. Certain computer applications and software are generally subject to regulation as medical devices, requiring registration with the FDA, application of detailed record-keeping and manufacturing standards, and FDA approval or clearance prior to marketing when such products are intended to be used in the diagnosis, cure, mitigation, treatment, or prevention of disease. Our PACS product is subject to FDA regulation. If the FDA were to decide that any of our other products and services should be subject to FDA regulation or, if in the future we were to expand our application and service offerings into areas that may subject us to further FDA regulation, the costs of complying with FDA requirements would most likely be substantial. Satisfaction of the approval or clearance requirements would create delays in marketing, and the FDA could require supplemental filings or deny certain of these products. In addition, we are subject to periodic FDA inspections and there can be no assurances that we will not be required to undertake specific actions to further comply with the Federal Food, Drug and Cosmetic Act, its amendments and any other applicable regulatory requirements. The FDA has available several enforcement tools, including product recalls, seizures, injunctions, civil fines and/or criminal prosecutions. FDA compliance efforts with regard to our PACS product are time consuming and very significant and any failure to comply could have a material adverse effect on our business, revenues, operating results, cash flows and financial condition.

We and our customers must comply with various federal and state anti-kickback, self-referral, false claims and similar laws, the breach of which could cause a material adverse effect on our business, financial condition and results of operations.

Our relationships with our customers are subject to scrutiny under various federal anti-kickback, self-referral, false claims and similar laws, often referred to collectively as healthcare fraud and abuse laws. The scope and enforcement of all of these laws is uncertain and subject to rapid change, especially in light of the lack of applicable precedent and regulations. There can be no assurance that federal or state regulatory or enforcement authorities will not investigate or challenge our current or future activities under these laws. Any such investigation or challenge could have a material adverse effect on our business, financial condition and results of operations. Any state or federal regulatory or enforcement review of us, regardless of the outcome, would be costly and time consuming. Additionally, we cannot predict the impact of any changes in these laws, whether or not retroactive.

State and federal laws relating to confidentiality of patient medical records could limit our customers' ability to use our services and expose us to liability.

The confidentiality of patient records and the circumstances under which records may be released are already subject to substantial governmental regulation. Although compliance with these laws and regulations is principally the responsibility of the healthcare provider, under these current laws and regulations patient confidentiality rights are evolving rapidly. A breach of any privacy rights of a customer and/or patient of a customer by one of our employees could subject us to significant liability. In addition to the obligations being imposed at the state level, there is also legislation governing the dissemination of medical information at the federal level. The federal regulations may require holders of this information to implement security measures, which could entail substantial expenditures on our part. Adoption of these types of legislation or other changes to state or federal laws could materially affect or restrict the ability of healthcare providers to submit information from patient records using our

products and services. These kinds of restrictions would likely decrease the value of our applications to our customers, which could materially harm our business.

We depend on partners/suppliers for delivery of electronic data interchange (e.g., insurance claims processing and invoice printing services), commonly referred to as EDI, hardware maintenance services, third-party software or software or hardware components of our offerings, and sales lead generation. Any failure, inability or unwillingness of these suppliers to perform these services or provide their products could negatively impact our customers' satisfaction and our revenues.

We use various third-party suppliers to provide our customers with EDI transactions and on-site hardware maintenance. EDI revenues would be particularly vulnerable to a supplier failure because EDI revenues are earned on a daily basis. We rely on numerous third-party products that are made part of our software offerings and/or that we resell. Although other vendors are available in the marketplace to provide these products and services, it would take time to switch suppliers. If these suppliers were unable or unwilling to perform such services, provide their products or if the quality of these services or products declined, it could have a negative impact on our customers satisfaction and result in a decrease in our revenues, cash flows and operating results.

Our systems may be vulnerable to security breaches and viruses.

The success of our strategy to offer our EDI services and Internet solutions depends on the confidence of our customers in our ability to securely transmit confidential information. Our EDI services and Internet solutions rely on encryption, authentication and other security technology licensed from third parties to achieve secure transmission of confidential information. We may not be able to stop unauthorized attempts to gain access to or disrupt the transmission of communications by our customers. Some of our customers have had their use of our software significantly impacted by computer viruses. Anyone who is able to circumvent our security measures could misappropriate confidential user information or interrupt our operations and those of our customers. In addition, our EDI and internet solutions may be vulnerable to viruses, physical or electronic break-ins, and similar disruptions. Any failure to provide secure electronic communication services could result in a lack of trust by our customers, causing them to seek out other vendors, and/or damage our reputation in the market, making it difficult to obtain new customers. Moreover, any such failure could cause us to be sued. Even if these law suits do not result in any liability to us, defending against and investigating these law suits could be expensive and time-consuming, and could divert personnel and other resources from our business.

Our growth could be limited if we are unable to attract and retain qualified personnel.

We believe that our success depends largely on our ability to attract and retain highly skilled technical, managerial and sales personnel to develop, sell and implement our products and services. Individuals with the information technology, managerial and selling skills we need to further develop, sell and implement our products and services are in short supply and competition for qualified personnel is particularly intense. We may not be able to hire the necessary personnel to implement our business strategy, or we may need to pay higher compensation for employees than we currently expect. We cannot assure you that we will succeed in attracting and retaining the personnel we need to continue to grow and to implement our business strategy. In addition, we depend on the performance of our executive officers and other key employees. The loss of any member of our senior management team could negatively impact our ability to execute our business strategy.

We may be exposed to credit risks of our customers.

We recorded revenues of \$49.9 million in fiscal year 2007 and we bill substantial amounts to many of our customers. A deterioration of the credit worthiness of any of our customers could impact our ability to collect receivables or provide future services, which could negatively impact the results of our operations. At December 31, 2007, no one customer represented more than 10% of our accounts receivable. If any of our significant customers were unable to pay us in a timely fashion, or if we were to experience significant credit losses in excess of our reserves, our results of operations, cash flows and financial condition would be seriously harmed.

Our future success depends on our ability to successfully develop new products and adapt to new technological change.

To remain competitive, we will need to develop new products, evolve existing products, and adapt to technological change. Technical developments, customer requirements, computer programming languages and industry standards change frequently in our markets. As a result, success in current markets and new markets will depend upon our ability to enhance current products, develop and introduce new products that meet customer needs, keep pace with changes in technology, respond to competitive products, and achieve market acceptance. Product development requires substantial investments for research, refinement and testing. There can be no assurance that we will have sufficient resources to make necessary product development investments. We may experience difficulties that will delay or prevent the successful development, introduction or implementation of new or enhanced products. Our inability to introduce or implement new or enhanced products in a timely manner would adversely affect our future financial performance. Our products are complex and may contain errors. Computer programming errors in products will require us to ship corrected products to customers. Errors in products could cause the loss of or delay in market acceptance or sales and revenue, the diversion of development resources, injury to our reputation, and increased service, indemnification and warranty costs which would have an adverse effect on our financial performance.

We are exposed to potential risks and we will continue to incur increased costs as a result of the internal control testing and evaluation process mandated by Section 404 of the Sarbanes-Oxley Act of 2002.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2007 and assessed all deficiencies on both an individual basis and in combination to determine if, when aggregated, they constitute a material weakness. As a result of this evaluation, no material weaknesses were identified. Although we have completed the documentation and testing of the effectiveness of our internal control over financial reporting for the fiscal year ended December 31, 2007, as required by Section 404 of the Sarbanes-Oxley Act of 2002, we expect to continue to incur costs, including increased accounting fees and increased staffing levels, in order to maintain compliance with that section of the Sarbanes-Oxley Act. We continue to monitor controls for any weaknesses or deficiencies. No evaluation can provide complete assurance that our internal controls will detect or uncover all failures of persons within the company to disclose material information otherwise required to be reported. The effectiveness of our controls and procedures could also be limited by simple errors or faulty judgments.

In the future, if we fail to complete the Sarbanes-Oxley 404 evaluation in a timely manner, or if our independent registered public accounting firm cannot attest to the effectiveness of our internal controls in a timely manner, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

The Company leases and occupies the following commercial space:

<u>Location</u>	<u>Square Footage</u>	<u>2008 Monthly Cost</u>	<u>Lease Expiration</u>
Boston, Massachusetts	27,081	\$65,446	January 2013
Daytona, Florida	35,253	\$48,109	July 2008

The Boston, Massachusetts location is our headquarters, which provides a location for executive and administrative offices and serves our sales, marketing, research and development, and customer service purposes. The Daytona Beach, Florida location serves sales, research and development, and customer service purposes. We expect to find a suitable location prior to the expiration of the lease in July 2008. We consider our properties to be generally in good condition, well maintained and generally suitable and adequate to carry on our business.

Item 3. Legal Proceedings

From time to time, in the normal course of business, we are involved with disputes and have various claims made against us. We are a party to various legal proceedings arising out of the ordinary course of our business. We believe that there are no proceedings pending against us which, if determined adversely, would have a material adverse effect on our financial condition or results of operations.

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

In the fourth quarter of the fiscal year ended December 31, 2007, no matter was submitted to a vote of our security holders.

PART II

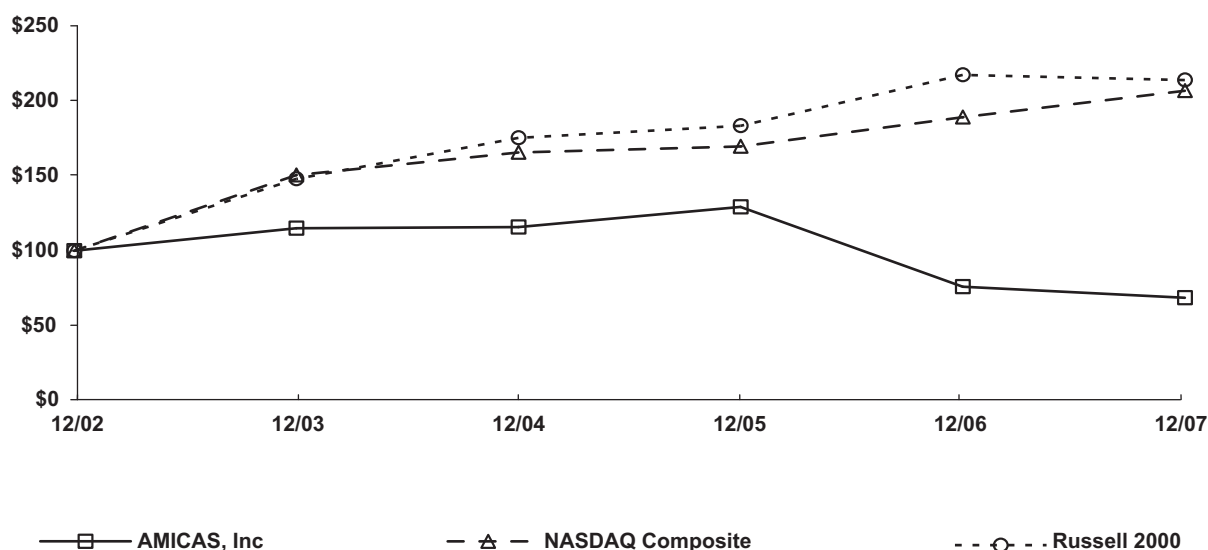
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. On January 4, 2005, we changed our trading symbol on The NASDAQ National Market (now known as the "NASDAQ Global Market") to "AMCS." From March 6, 2001 until January 3, 2005, our common stock was traded on NASDAQ National Market under the trading symbol "VWKS." On March 12, 2008, the last reported sale price of our common stock on The NASDAQ Global Market was \$2.27. The high and low sale prices of our common stock for each quarter during the last two full fiscal years are set forth below:

<u>2007</u>	<u>High</u>	<u>Low</u>
First Quarter	\$3.10	\$2.66
Second Quarter	\$3.54	\$2.75
Third Quarter	\$3.68	\$2.34
Fourth Quarter	\$3.04	\$2.39
<u>2006</u>		
First Quarter	\$5.60	\$4.27
Second Quarter	\$4.79	\$2.68
Third Quarter	\$3.58	\$2.50
Fourth Quarter	\$3.32	\$2.58

Stock Price Performance Graph. The graph below compares the cumulative total return on our common stock with the NASDAQ Global Market index (U.S. companies) and Russell 2000 index for the period from December 31, 2002 to December 31, 2007. The comparison assumes that \$100 was invested on December 31, 2002 in our common stock and in each of the comparison indices, and assumes reinvestment of dividends, where applicable. We have selected the Russell 2000 index for comparison purposes as we do not believe we can reasonably identify an appropriate peer group index. The comparisons shown in the graph below are based upon historical data and we caution that the stock price performance shown in the graph below is not indicative of, nor intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from Research Data Group, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among AMICAS, Inc, The NASDAQ Composite Index
And The Russell 2000 Index



* \$100 invested on 12/31/02 in stock or index-including reinvestment of dividends.
 Fiscal year ending December 31.

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
AMICAS Common Stock	100.00	114.81	115.58	128.83	76.36	69.09
NASDAQ Composite	100.00	149.75	164.64	168.60	187.83	205.22
Russell 2000© index	100.00	147.25	174.24	182.18	215.64	212.26

Stockholders. As of March 12, 2008, there were approximately 1,358 record holders of our common stock.

Dividend Policies. We have never declared or paid any dividends on our common stock. We currently intend to retain our future earnings for use in the operation and expansion of our business and do not anticipate declaring or paying any cash dividends in the foreseeable future. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant.

Unregistered Sales of Securities. We did not sell any unregistered securities during fiscal year 2007.

Issuer Purchases of Equity Securities. On December 13, 2007, our Board of Directors approved our repurchase of shares of our common stock having an aggregate value of up to \$25 million. As of December 31, 2007, we have repurchased 300,800 shares of stock under a Rule 10b5-1 trading plan. The table below sets forth repurchases of our common stock in each of the three months of the fourth quarter of the year ended December 31, 2007.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
As of September 30, 2007	—	\$ —	—	\$ —
October 1, 2007 through October 31, 2007	—	—	—	—
November 1, 2007 through November 30, 2007	—	—	—	—
December 1, 2007 through December 31, 2007	<u>300,800</u>	<u>2.669</u>	<u>300,800</u>	<u>24,197,168</u>
Total:	<u>300,800</u>	<u>\$2.669</u>	<u>300,800</u>	<u>\$24,197,168</u>

Item 6. Selected Consolidated Financial Data

The following tables set forth selected consolidated financial data of our company as of and for each of the years in the five-year period ended December 31, 2007 and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

The selected consolidated financial data as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 have been derived from our consolidated financial statements which are included elsewhere in this Annual Report on Form 10-K and were audited by BDO Seidman, LLP, an independent registered public accounting firm. The selected consolidated financial data as of December 31, 2005, 2004 and 2003 have been derived from our consolidated financial statements not included herein, which were audited by BDO Seidman, LLP.

	<u>For the Year Ended December 31,</u>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>(In thousands, except per share data)</i>				
Consolidated Statements of Operations					
Data(a)(b)(c)					
Revenues					
Maintenance and services	\$38,175	\$36,258	\$36,813	\$ 29,543	\$ 24,534
Software licenses and system sales	<u>11,713</u>	<u>13,179</u>	<u>15,998</u>	<u>12,776</u>	<u>9,677</u>
Total revenues	<u>49,888</u>	<u>49,437</u>	<u>52,811</u>	<u>42,319</u>	<u>34,211</u>
Costs and expenses					
Cost of revenues:					
Maintenance and services	16,469	15,003	14,163	13,060	13,999
Software licenses and system sales, includes amortization of software costs of \$1,957 in 2007 \$1,958 in 2006, \$1,966 in 2005, \$3,178 in 2004 and \$1,873 in 2003	6,486	7,644	6,413	6,154	5,147
Impairment of capitalized software	—	—	—	3,229	490
Selling, general and administrative	21,809	21,770	20,701	25,824	14,577

	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Research and development	8,527	8,705	9,047	9,488	7,565
Depreciation and amortization	1,120	1,238	1,777	1,968	1,331
Settlements, severance and impairment charges	—	—	5,677	5,730	—
Acquired in-process technology	—	—	—	—	750
Restructuring credits	—	—	—	(155)	—
Total costs and expenses	<u>54,411</u>	<u>54,360</u>	<u>57,778</u>	<u>65,298</u>	<u>43,859</u>
Operating loss income	(4,523)	(4,923)	(4,967)	(22,979)	(9,648)
Interest income (expense), net	<u>3,870</u>	<u>3,753</u>	<u>1,765</u>	<u>(1,336)</u>	<u>(876)</u>
Loss from continuing operations, before income taxes	(653)	(1,170)	(3,202)	(24,315)	(10,524)
Provision for (benefit from) income taxes	<u>209</u>	<u>84</u>	<u>(1,197)</u>	<u>2,200</u>	<u>200</u>
Loss from continuing operations	(862)	(1,254)	(2,005)	(26,515)	(10,724)
Gain on Sale of discontinued operations, net of benefit from income taxes of \$230 in 2006 and provision for income taxes of \$33,906 in 2005	—	230	46,277	—	—
(Loss) income from discontinued operations, net of income taxes	<u>—</u>	<u>—</u>	<u>(57)</u>	<u>14,058</u>	<u>18,687</u>
Net (loss) income	<u>\$ (862)</u>	<u>\$ (1,024)</u>	<u>\$44,215</u>	<u>\$ (12,457)</u>	<u>\$ 7,963</u>
(Loss) earnings per share — basic					
Continuing operations income taxes	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.61)	\$ (0.25)
Discontinued operations income taxes	<u>0.00</u>	<u>0.00</u>	<u>1.00</u>	<u>0.32</u>	<u>0.43</u>
	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ 0.96</u>	<u>\$ (0.29)</u>	<u>\$ 0.18</u>
(Loss) earnings per share — diluted					
Continuing operations	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.61)	\$ (0.25)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>1.00</u>	<u>0.32</u>	<u>0.43</u>
	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ 0.96</u>	<u>\$ (0.29)</u>	<u>\$ 0.18</u>
Cash provided by (used in) operating activities(d)	<u>\$ 6,975</u>	<u>\$ 3,565</u>	<u>\$ (7,689)</u>	<u>\$ 4,735</u>	<u>\$ 2,180</u>

- (a) On November 25, 2003, we acquired 100% of the outstanding capital stock of Amicas PACS Corp., formerly Amicas, Inc., a developer of Web-based diagnostic image management software solutions. Our 2003 statement of operations includes only one month of operating results of Amicas PACS and our 2002 statement of operations does not include operating results of Amicas PACS.
- (b) The consolidated statement of operations for the years ended December 31, 2004 and 2003, respectively, has been prepared and historical consolidated statements of operations have been reclassified to present the results of the Medical Division as discontinued operations.
- (c) Consolidated statements of operations data include \$1,878 and \$1,763 related to the adoption of SFAS 123(R), “Share-Based Payment”, for the years ended December 31, 2007 and December 31, 2006, respectively.
- (d) Includes operating activities of the Medical Division through the sale of the Medical Division on January 3, 2005.

	December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Consolidated Balance Sheet Data					
Cash and cash equivalents	\$ 8,536	\$ 7,331	\$ 82,214	\$ 12,634	\$ 20,128
Marketable securities	67,071	64,436	—	—	—
Working capital	70,770	68,964	79,036	19,968	9,548
Total assets	128,441	126,871	140,285	133,886	132,576
Total long-term debt	—	—	—	28,674	29,757
Total stockholders' equity	108,246	107,555	119,913	64,655	70,662

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

The following discussion should be read in conjunction with the other parts of this report, including the audited consolidated financial statements and related notes. Historical results and percentage relationships set forth in the statement of operations, including trends that might appear, are not necessarily indicative of future operations. Please see "Risk Factors — Warning About Forward-Looking Statements and Risk Factors that May Affect Future Results" for a discussion of the uncertainties, risks and assumptions associated with these statements.

Overview

AMICAS, Inc. ("we," "us," "our," "AMICAS" or the "Company") is a leader in radiology and medical image and information management solutions. The AMICAS Vision Series™ products provide a complete, end-to-end IT solution for imaging centers, ambulatory care facilities, radiology practices and billing services. Solutions include automation support for workflow, imaging, billing and document management. Hospital customers are provided a fully-integrated, hospital information system ("HIS")/radiology information system ("RIS") - independent image management or picture archiving communication system ("PACS"), featuring advanced enterprise workflow support and scalable design. Complementing the Vision Series product family is AMICAS Insight SolutionsSM, a set of client-centered professional and consulting services that assist the Company's customers with a well-planned transition to a digital enterprise. In addition, the Company provides its customers with ongoing software and hardware support, implementation, training, and electronic data interchange ("EDI") services for patient billing and claims processing.

Software license fees and system revenues are derived from the sale of software product licenses and computer hardware. Maintenance and services revenues come from providing ongoing product support, implementation, training and transaction processing services. Approximately 62%, 59% and 53% of our total revenues were of a recurring nature, such as support and transaction processing services, in 2007, 2006 and 2005, respectively.

AMICAS began as "AMICAS PACS," a developer of Web-based diagnostic image management software solutions, and was acquired by VitalWorks in November 2003. In January 2005, we completed the sale of our medical division and renamed the company AMICAS, Inc. We have continued to develop our products and focus on innovation and a high level of quality. Our current financial position is a result of several significant transactions:

- In January 2005, we completed the sale of our medical division to Cerner Corporation. As consideration for the sale, we received \$100 million in cash, subject to a post-closing purchase price reduction of \$1.6 million. In 2005, we recorded a net gain on the sale of \$46.3 million, net of income taxes of \$33.9 million.
- In January 2005, we repaid the entire outstanding balance under our credit facility with Wells Fargo Foothill, Inc. of approximately \$23.2 million and we terminated the credit facility.

In addition, in October 2005, we announced that David and Susan Jones ("Plaintiffs") and InfoCure Corporation (now known as AMICAS, Inc.), Richard Perlman and James Price agreed to settle and to resolve and terminate, fully and finally, the issues between them in the lawsuit styled David and Susan Jones v. InfoCure Corporation, et al. filed in 2001 concerning a 1999 transaction. As part of the settlement, we agreed to pay \$3.25 million to the Plaintiffs. We recorded a \$2.75 million charge related to the settlement of this litigation in 2005.

The \$2.75 million charge was net of the reimbursement received of \$325,000 from the co-defendants, who were two former executive officers of the Company, and \$0.5 million for previously accrued amounts.

RESULTS OF OPERATIONS

Revenues

	Year Ended December 31,				
	2007	Change	2006	Change	2005
	(Dollars in thousands)				
Maintenance and services	\$38,175	5.3%	\$36,258	(1.5)%	\$36,813
Percentage of total revenues	76.5%		73.3%		69.7%
Software licenses and system sales	\$11,713	(11.1)%	\$13,179	(17.6)%	\$15,998
Percentage of total revenues	23.5%		26.7%		30.3%
Total revenues	<u>\$49,888</u>	<u>0.9%</u>	<u>\$49,437</u>	<u>(6.4)%</u>	<u>\$52,811</u>

Maintenance and services revenues of \$38.2 million in fiscal 2007 increased approximately \$1.9 million, or 5.3%, from \$36.3 million in fiscal 2006. This increase was due to a \$1.4 million increase in maintenance revenues, \$0.5 million increase in EDI services revenues and a \$0.1 million increase in third-party product royalties offset by a \$0.1 decrease in implementation revenues. The \$1.4 million increase in maintenance revenues was primarily the result of new customers and associated maintenance revenues offset by customer attrition. The \$0.5 million increase in EDI revenues was primarily the result of growth in the volumes processed by our customers and new EDI customers.

Maintenance and services revenues of \$36.3 million in fiscal 2006 decreased approximately \$0.5 million, or 1.5%, from \$36.8 million in fiscal 2005. This decrease was due to a \$1.8 million decrease of implementation and training services revenues, \$1.0 million increase in maintenance revenues, \$0.2 million increase in EDI services revenues and a \$0.1 million increase in third-party product royalties. The \$1.8 million decrease in implementation and training revenues was due to the reduction of implementations as a result of our decreased software license and systems sales volume. The \$1.0 million increase in maintenance revenues was primarily the result of new customers and associated maintenance revenues offset by customer attrition.

Software license and system revenues of \$11.7 million in fiscal year 2007 decreased approximately \$1.5 million, or 11.1%, from \$13.2 million in fiscal 2006. The decrease of \$1.5 million is due to a decrease of software licenses of \$0.5 million and system revenues of \$1.0 million. Software license revenues decreased due to an increase in software discounting as well as a change in contracts terms, such as extended payments terms or per use pricing, that delay the recognition of software license fees. Systems revenue decreased due to customers electing to purchase hardware from other third-party vendors.

Software license and system revenues of \$13.2 million in fiscal 2006 decreased approximately \$2.8 million, or 17.6%, from \$16.0 million in fiscal 2005. This decrease was the result of lower volume of software license and system sales to new and existing customers, increased discounting and increases in software license and systems orders that were deferred due to revenue recognition policies under generally accepted accounting principles.

Quarterly and annual revenues and related operating results are highly dependent on the volume and timing of the signing of license agreements and product deliveries during each quarter, which are very difficult to forecast. A significant portion of our quarterly sales of software product licenses and computer hardware is concluded in the last month of each quarter, generally with a concentration of our quarterly revenues earned in the final ten business days of that month. Also, our projections for revenues and operating results include significant sales of new product and service offerings, including our Vision Series PACS, Vision Series RIS, Vision Series Financials, RadStream, Insight Dashboards and Vision Series Document Management. Due to these and other factors, our revenues and operating results are very difficult to forecast.

Cost of Revenues

	Year Ended December 31,				
	2007	Change	2006	Change	2005
	(Dollars in thousands)				
Maintenance and services	\$16,469	9.8%	\$15,003	5.9%	\$14,163
Percentage of maintenance and services revenues	43.1%		41.4%		38.5%
Software licenses and system sales	\$ 6,486	(15.1)%	\$ 7,644	19.2%	\$ 6,413
Percentage of software licenses and system sales	55.4%		58.0%		40.1%
Total cost of revenues	<u>\$22,955</u>	<u>1.4%</u>	<u>\$22,647</u>	<u>10.1%</u>	<u>\$20,576</u>

Cost of maintenance and services revenues primarily consists of the cost of EDI insurance claims processing, outsourced hardware maintenance, EDI billing and statement printing services, postage, third-party consultants, billable travel and personnel salaries, benefits and other allocated indirect costs related to the delivery of services and maintenance.

Cost of maintenance and services revenues of \$16.5 million in fiscal 2007 increased approximately \$1.5 million, or 9.8%, from \$15.0 million in fiscal 2006. This increase was primarily related to the increase in maintenance and services revenues, with an increase in salary, benefits and other allocated internal direct costs of approximately \$0.8 million and an increase of \$0.7 million in external cost for third-party software and hardware maintenance.

Cost of maintenance and services revenues of \$15.0 million in fiscal 2006 increased approximately \$0.8 million, or 5.9%, from \$14.2 million in fiscal 2005. This increase was primarily due to an increase in salary, benefits and other allocated internal direct costs of approximately \$1.0 million offset by a decrease of \$0.2 million in external fees associated with the provision of hardware maintenance.

Cost of maintenance and services revenues of \$16.5 million in 2007, represented 43.1% of maintenance and services revenues versus \$15.0 million, or 41.4%, of revenues in 2006. The increase in the percentage of maintenance and services revenue percentage of 1.8% is due primarily to the increase in salary costs related to services and support.

Cost of maintenance and services revenues of \$15.0 million in 2006, represented 41.4% of maintenance and services revenues versus \$14.2 million, or 38.5%, of revenues in 2005. The increase in the percentage of maintenance and services revenue percentage of 2.9% is due primarily to the increase of salary costs related to services and support.

Cost of software license and system revenues primarily consists of costs incurred to purchase computer hardware, third-party software and other items for resale in connection with sales of new systems, as well as amortization of software product costs.

Cost of software license and system revenues of \$6.5 million in fiscal 2007 decreased approximately \$1.2 million, or 15.1%, from \$7.6 million in fiscal 2006. This decrease was due to an decrease of \$1.6 million in computer hardware expenses offset by an increase of \$0.4 million in third-party software fees.

Cost of software license and system revenues of \$7.6 million in fiscal 2006 increased approximately \$1.2 million, or 19.2%, from \$6.4 million in fiscal 2005. This increase was due to an increase of \$1.7 million in computer hardware expenses offset by a decrease of \$0.5 million in third-party software fees.

In the first quarter of 2007, we acquired certain ownership rights to IMAGINeradiology's practice management software for \$2.3 million. Costs incurred to develop and modify this software to release as our Vision Series Financial product will be amortized over its estimated life. We expect Vision Series Financials to be commercially available during the first half of 2008, at which point we will begin amortization of this capitalized cost in cost of software license and systems revenues.

Operating Expenses

	Year Ended December 31,				
	2007	Change	2006	Change	2005
	(Dollars in thousands)				
Selling, general and administrative	\$21,809	0.2%	\$21,770	5.2%	\$20,701
Percentage of total revenues	43.7%		44.0%		39.2%
Research and development	\$ 8,527	(2.1)%	\$ 8,705	(3.8)%	\$ 9,047
Percentage of total revenues	17.1%		17.6%		17.1%
Depreciation and amortization	\$ 1,120	(9.5)%	\$ 1,238	(30.3)%	\$ 1,777
Percentage of total revenues	2.2%		2.5%		3.4%

Selling, general and administrative

Selling, general and administrative expenses include fixed and variable compensation and benefits, facilities, travel, communications, bad debt, legal, marketing, insurance, stock-based compensation and other administrative expenses.

Selling, general and administrative expenses of \$21.8 million in fiscal 2007 increased \$39,000, or 0.2% from \$21.8 million in fiscal 2006. This increase was due to a \$0.9 million increase in personnel salaries, benefits and related expenses offset by a reduction of other general and administrative expenses of \$0.9 million, primarily bad debt expense and accounting services.

Selling, general and administrative expenses as a percentage of revenue decreased to 43.7% from 44.0% in fiscal year 2007. This decrease was primarily due to the increase in revenues as general and administrative expenses remained relatively flat versus fiscal year 2006.

Selling, general and administrative expenses of \$21.8 million in fiscal 2006 increased approximately \$1.1 million, or 5.2%, from \$20.7 million in fiscal 2005. This increase was primarily due to a \$1.5 million stock-based compensation expense as a result of the implementation of SFAS 123(R), "Share-Based Payment" incurred in 2006 offset by a decrease of approximately \$0.4 million in personnel salaries, benefits and related expenses.

Selling, general and administrative expenses as a percentage of revenue increased to 44.0% or 4.8% versus 2005. This increase was primarily due to the increase of \$1.1 million in selling, general and administrative expenses and lower revenues in 2006.

Research and development

Research and development expenses include fixed and variable compensation and benefits, facilities, travel, communications, stock-based compensation and other administrative expenses related to our research and development activities.

Research and development expense was \$8.5 million in 2007, which represents a decrease of \$0.2 million, or 2.1%, from \$8.7 million in fiscal 2006. This decrease is due to a reduction in salaries and related personnel costs in the research and development area.

As a percentage of revenue, research and development expense decreased slightly to 17.1% in 2007 versus 17.6% in 2006. The percentage decreased due to both decreased research and development costs and slightly higher revenues in 2007 versus 2006.

Research and development expense was \$8.7 million in 2006, which represents a decrease of \$0.3 million, or 3.8%, from \$9.0 million in fiscal 2005. This decrease is due to a reduction in headcount and related salaries, benefits and associated expenses.

As a percentage of revenue, research and development expense increased slightly to 17.6% in 2006 versus 17.1% in 2005. Although research and development expense decreased, the percentage increased due to the lower overall revenues in 2006 versus 2005.

Depreciation and amortization

Depreciation and amortization expense of \$1.1 million, consisting of \$0.7 million related to fixed assets and \$0.4 million of amortization related to intangible assets, in fiscal 2007 decreased approximately \$0.1 million, or 9.5%, from \$1.2 million in fiscal 2006. This decrease was the result of fixed assets that became fully depreciated during the 2007 fiscal year offset by increases in depreciation expense for new assets placed in service during 2007.

Depreciation and amortization expense of \$1.2 million, consisting of \$0.8 million related to fixed assets and \$0.4 million of amortization related to intangible assets, in fiscal 2006 decreased approximately \$0.6 million, or 30.3%, from \$1.8 million in fiscal 2005. This decrease was the result of fixed assets that became fully depreciated during the 2006 fiscal year.

In the first quarter of 2007, we acquired certain ownership rights to IMAGINeradiology's practice management software for \$2.3 million. Costs incurred to date to develop and modify this software to release as our Vision Series Financial product will be amortized over its estimated life. We have not capitalized any internal costs as of December 31, 2007. We expect Vision Series Financials to be commercially available during the first half of 2008, at which point we will begin amortization of this capitalized cost.

Settlements, severance and impairment charges

2007 Severance Costs

On October 1, 2007, we notified Peter A. McClennen, our President and Chief Operating Officer ("Mr. McClennen") the Employment Agreement between Mr. McClennen and us, dated March 28, 2005 (the "Employment Agreement") would not be renewed. Pursuant to the terms of the Employment Agreement and in connection with the non-renewal by us of that agreement, we and Mr. McClennen have entered into a general release and separation agreement, dated as of October 25, 2007 (the "Separation Agreement"). Pursuant to the Separation Agreement, Mr. McClennen is entitled to receive one year's salary as a severance payment. As of December 31, 2007, we have accrued approximately \$0.3 million in general and administrative expenses related to this Separation Agreement.

In 2005, we incurred an expense of \$5.7 million for settlements, severance and impairment charges. These charges consisted of the following:

Settlement of earn-out. In connection with the termination of the \$4.3 million earn-out consideration obligations relating to the acquisition of Amicas PACS, we recognized \$1.9 million of expense for amounts paid to certain Amicas PACS employees under the Amicas PACS bonus plan. Included in the \$1.9 million was \$1.1 million for the acceleration of earn-out bonuses, pursuant to agreements with former Amicas PACS executives, whose employment was terminated by mutual agreement.

Settlement of litigation. On October 14, 2005, we announced that David and Susan Jones ("Plaintiffs") and InfoCure Corporation (now known as AMICAS, Inc.), Richard Perlman and James Price agreed to settle and to resolve and terminate, fully and finally, the issues between them in the lawsuit styled David and Susan Jones v. InfoCure Corporation, et al. filed in 2001 concerning a 1999 transaction (see Note M to our Consolidated Financial Statements). As part of the settlement, we agreed to pay \$3.25 million to the Plaintiffs. We recorded a \$2.75 million charge related to the settlement of this litigation in 2005. The \$2.75 million charge is net of the reimbursement received of \$325,000 from the co-defendants, who are two former executive officers of the Company, and \$0.5 million for previously accrued amounts.

Restructuring charges:

The 2005 Plan. In May 2005, we notified 13 of our employees that their employment would be terminated in the second quarter of 2005 and, pursuant to their termination agreements, we agreed to pay their salary during their severance period. In 2005, we recorded a \$0.2 million charge for costs associated with their termination.

Office Closure. In June 2005, we vacated our former Ridgefield, Connecticut headquarters and determined we had no future use for this leased space. In 2005, we recorded a restructuring charge for the remaining contractual lease payments under the lease agreement of approximately \$0.1 million that was paid in 2005.

Executive Termination Costs. On March 31, 2005, we entered into a separation agreement with two of our former executives, who were also former executives of Amicas PACS. Pursuant to their agreements, we agreed to pay the executives two months of salary and other compensation obligations. In 2005, we recorded approximately \$0.1 million in costs related to the termination of employment of these executives. As of December 31, 2005, all amounts have been paid.

Interest Income (Expense)

	Year Ended December 31,				
	2007	Change	2006	Change	2005
	(Dollars in thousands)				
Interest income	\$3,870	3.1%	\$3,753	49.2%	\$2,516
Interest expense	—	—	—	(100.0)%	(751)

The increase in interest income in 2007 of \$0.1 million, or 3.1%, versus fiscal year 2006 is the result of increased marketable securities and cash balances as we generated cash from operations in 2007, and the excess cash was reinvested.

In fiscal 2006, interest income of \$3.8 million consisted primarily of the interest income generated from cash, cash equivalents and marketable securities. Interest income increased \$1.2 million, or 49.2%, from \$2.5 million in 2005. During 2006, we invested our cash equivalents which were invested primarily in money market funds into marketable securities with longer maturities and higher yields. Interest income increased to \$2.5 million in 2005 versus \$0.2 million in 2004. This increase was primarily due to the increase in our cash and cash equivalent balance as a result of the sale of our Medical Division in January 2005, as well as a higher interest rate being earned on our cash and cash equivalent balance and increases in the cash surrender value of certain life insurance policies on former officers.

The decrease in interest expense in 2005 relates to our credit facility pay-off. In conjunction with the early pay-off of the credit facility, we wrote-off approximately \$0.7 million of previously capitalized deferred financing costs in fiscal year 2005. We had no interest expense during 2006 or 2007 as a result of not carrying any debt.

Income Taxes

For 2007, we recorded an income tax provision of \$209,000 from continuing operations. For 2006, we recorded an income tax provision from continuing operations of \$84,000 and a benefit of \$230,000 related to discontinued operations. The increase in our tax provision in 2007 resulted primarily from accrued interest and penalties associated with our uncertain tax positions.

For 2005, we recorded an income tax benefit from continuing operations of \$1.2 million and an income tax provision of \$33.9 million related to discontinued operations. For 2006 and 2005, we recorded \$0.4 million and \$0.6 million, respectively, of income tax benefit to additional paid-in capital in connection with net operating loss carryforwards attributed to the exercise of employee stock options.

Management has assessed the recovery of our deferred tax assets of \$28.7 million and as a result of this assessment, recorded a valuation allowance of \$25.8 million as of December 31, 2007. The valuation allowance, along with deferred tax liabilities of \$2.9 million, reduces the net deferred tax asset to zero. Management believes it is more likely than not that all of the deferred tax asset will not be realized. A full valuation allowance has been

recorded against the net deferred tax asset since management believes it is more likely than not that the deferred tax asset will not be realized.

Gain on the sale of discontinued operations

On January 3, 2005, we completed the sale of substantially all of the assets and liabilities of our Medical Division to Cerner Corporation (“Cerner”) and certain of Cerner’s wholly-owned subsidiaries (the “Asset Sale”). The Asset Sale was completed in accordance with the terms and conditions of a Purchase Agreement between the Company and Cerner (the “Purchase Agreement”). As consideration for the Asset Sale, we received cash proceeds of approximately \$100 million, subject to a post-closing purchase price reduction of \$1.6 million.

Under the terms of the Purchase Agreement, Cerner agreed to pay us \$100 million in cash, subject to a post-closing adjustment based on our net working capital as of the closing date, and Cerner agreed to assume specified liabilities of our Medical Division and certain obligations under assigned contracts and intellectual property.

In 2005, we recorded a net gain from the sale of approximately \$46.3 million, which is net of approximately: \$16.2 million of net assets transferred to Cerner, \$1.6 million of post-closing purchase price adjustments, \$33.9 million of income taxes, \$1.0 million relating to the modification of stock options granted to certain employees of the Medical Division and \$1.0 million of additional fees and transaction costs related to the Asset Sale.

In 2006, we recorded a \$0.2 million gain from the Asset Sale. This gain is the result of finalizing the allocation of the gain on the Asset Sale to the various state taxing jurisdictions for 2005.

(Loss) Income from Discontinued Operations

Discontinued operations represent the Asset Sale. On January 3, 2005, we completed the Asset Sale. For 2005, our loss from discontinued operations was \$0.1 million.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2007, our cash and cash equivalents and marketable securities were \$75.6 million, an increase of \$3.8 million from \$71.8 million of cash and cash equivalents and marketable securities at December 31, 2006. This increase was primarily due to cash generated from operations. During 2007, we invested additional cash equivalents in marketable securities.

Net cash provided by operating activities was \$7.0 million in 2007 as compared to \$3.6 million in 2006. The \$3.4 million increase of cash provided by operating activities resulted from increases in changes in operating assets and liabilities, consisting of increases from prepaid expenses and accounts payable and accrued expenses and unrecognized tax benefits of approximately \$9.0 million offset by operating decreases in deferred revenue, and accounts receivable of \$6.0 million, offset by an increase of \$0.4 million from net income and adjustments to net income.

Net cash provided by operating activities was \$3.6 million in 2006 compared with cash used in operating activities of \$7.7 million in 2005. The \$11.3 million increase of cash provided by operating activities resulted from an increase in changes in operating assets and liabilities, a decrease in the loss from continuing operations adjusted for non-cash income and expenses including \$1.8 million of non-cash stock compensation in 2006 as compared to 2005.

Investing activities utilized net cash of \$5.4 million in 2007 compared to net cash utilized of \$65.4 million in 2006. In 2006, our cash equivalents of \$64.4 million were invested in marketable securities. The 2007 net cash utilized of \$5.4 million reflects additional investments in marketable securities of \$2.6 million and \$2.8 million in net cash used for capital expenditures and the purchase of software.

Investing activities utilized net cash of \$65.4 million in 2006 compared to net cash generated of \$96.9 million in 2005. The 2006 net cash utilized of \$65.4 million reflects investments in marketable securities of \$64.4 million and \$0.9 million in net cash used primarily for capital expenditures.

Cash used in financing activities for 2007 totaled \$0.4 million, consisting of \$0.8 million of cash used to repurchase our common stock, offset by \$0.4 million of cash received in connection with the exercise of stock options by certain employees.

Cash used in financing activities for 2006 amounted to \$13.1 million, consisting of \$15.2 million of cash used to repurchase our common stock, offset by \$1.7 million of payments received in connection with the exercise of stock options by certain employees and \$0.4 million non-cash charge related to changes in the valuation allowance for stock option exercises.

Our primary source of liquidity is our cash and cash equivalents and marketable securities. We believe our cash and cash equivalents and marketable securities together with our cash provided by operations, will be sufficient to meet our projected cash requirements for at least the next 12 months.

Contractual Obligations

The following table summarizes the payments due for specific contractual obligations. These amounts are as of December 31, 2007.

	Fiscal Year Ended					Totals
	2008	2009	2010	2011	Thereafter	
	(In thousands)					
Operating leases(a)	\$1,152	\$ 848	\$874	\$866	\$923	\$4,663
Other commitments(b)	<u>888</u>	<u>288</u>	<u>96</u>	<u>—</u>	<u>—</u>	<u>1,272</u>
Total	<u>\$2,040</u>	<u>\$1,136</u>	<u>\$970</u>	<u>\$866</u>	<u>\$923</u>	<u>\$5,935</u>

(a) In October 2007, we signed a lease to remain in our Boston, Massachusetts corporate headquarters until January 2013. The base rent is \$65,446 per month and increases by \$1.00 per square foot annually over the lease term.

(b) Included in other commitments are the following:

- We are committed to paying approximately \$24,000 per month through April 2010 for certain EDI services.
- In connection with our employee savings plans, we have committed, for the 2008 plan year, to contribute to the plans. Our matching contribution for 2008 is estimated to be approximately \$0.6 million in cash. Our matching contribution for 2007 was approximately \$0.6 million of which \$0.5 million was paid in 2007 and \$0.1 million paid in February 2008.

In December 2007, our Board of Directors authorized the repurchase up to \$25.0 million of our common stock. As of December 31, 2007, we have repurchased 300,800 shares for approximately \$0.8 million under a Rule 10b5-1 trading plan.

We anticipate capital expenditures for computer software and equipment, other equipment, and leasehold improvements of approximately \$0.5 million for 2008.

To date, the overall impact of inflation on us has not been material.

From time to time, in the normal course of business, we are involved with disputes and have various claims made against us. There are no material proceedings to which we are a party currently pending, and management is unaware of any material contemplated actions against us.

Agreements with Cerner

On January 3, 2005, we entered into a transition services agreement with Cerner in connection with the sale of the Medical Division. Pursuant to the transition services agreement, in exchange for specified fees we provided services to Cerner including accounting, tax, information technology, customer support and use of facilities, and Cerner provides services to us such as EDI services including patient billing and claims processing, and use of facilities. Under the agreement, certain of the services we provided terminated on April 30, 2006 and certain

Cerner-provided services were expected to be provided through March 31, 2009. On September 27, 2007, effective May 1, 2007, we and Cerner mutually agreed to terminate the transition services agreement.

In January 2005, we completed the Asset Sale of our Medical Division to Cerner. In connection with the Purchase Agreement with Cerner, we assigned our agreement with a third-party provider of EDI services for patient claims processing to Cerner. For the months after April 2005, the annual processing services fee ranged from \$0.2 million to \$0.3 million based on our and Cerner's combined volume usage in the last month of the preceding year. We also assigned our patient statement agreement with NDC to Cerner. The agreement generally provided for us to send minimum quarterly volumes and to pay a minimum quarterly fee of \$0.6 million to Cerner through March 2006. Thereafter, the minimum quarterly volume commitment was to be reduced by 1.25% per quarter until April 2009. On September 27, 2007, in connection with the termination of the transition services agreement, we and Cerner mutually agreed that we have no further obligation to pay any minimum quarterly fees, and Cerner has no obligation to provide services. As a result, we recognized approximately \$0.5 million of previously recorded unearned discount as a reduction of cost of maintenance and services during the year ended December 31, 2007.

In connection with the Asset Purchase Agreement, relating to the sale of the Medical Division, each party has indemnified the other with respect to specified liabilities and breaches of certain representations and warranties. Until January 2010, we cannot, except in certain limited situations, compete with the Medical Division, and we cannot induce a Medical Division customer or prospect to terminate its relationship with Cerner. In addition, until January 2010, we cannot directly or indirectly attempt to induce any former Medical Division employee to work for us, and we are prohibited from hiring certain specified former Medical Division employees.

As permitted under Delaware law, we have agreements under which we indemnify our executive officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. Given the insurance coverage in effect, we believe the estimated fair value of these indemnification agreements is minimal. We have no liabilities recorded for these agreements as of December 31, 2007.

We generally include intellectual property indemnification provisions in our software license agreements. Pursuant to these provisions, we hold harmless and agree to defend the indemnified party, generally our business partners and customers, in connection with certain patent, copyright, trademark and trade secret infringement claims by third parties with respect to our products. The term of the indemnification provisions varies and may be perpetual. In the event an infringement claim against us or an indemnified party is made, generally we, in our sole discretion, agree to do one of the following: (i) procure for the indemnified party the right to continue use of the software, (ii) provide a modification to the software so that its use becomes noninfringing; (iii) replace the software with software which is substantially similar in functionality and performance; or (iv) refund all or the residual value of the software license fees paid by the indemnified party for the infringing software. We believe the estimated fair value of these intellectual property indemnification agreements is minimal. We have no liabilities recorded for these agreements as of December 31, 2007.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our financial statements and accompanying notes, which we believe have been prepared in conformity with generally accepted accounting principles. The preparation of these financial statements requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates, assumptions and judgments, including those related to revenue recognition, allowances for future returns, discounts and bad debts, tangible and intangible assets, deferred costs, income taxes, restructurings, commitments, contingencies, claims and litigation. We base our judgments and estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, our actual results could differ from those estimates.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition. We recognize revenue in accordance with Statement of Position (“SOP”) 97-2, “Software Revenue Recognition”, as amended by SOP 98-9, “Modification of SOP 97-2 with Respect to Certain Transactions”, SOP 81-1 “Accounting for Performance of Construction Type and Certain Performance Type Contracts” and the Securities and Exchange Commission’s Staff Accounting Bulletin 104, “Revenue Recognition in Financial Statements” (“SAB 104”) and EITF 01-14, “Income Statement Characterization of Reimbursements for ‘Out-of-Pocket’ Expenses Incurred.” We recognize software license revenues and system (computer hardware) sales upon execution of the sales contract and delivery of the software (off-the-shelf application software) and/or hardware. In all cases, however, the fee must be fixed or determinable, collection of any related receivable must be considered probable, and no significant post-contract obligations of ours shall be remaining. Otherwise, we defer the sale until all of the requirements for revenue recognition have been satisfied. Maintenance fees for routine client support and unspecified product updates are recognized ratably over the term of the maintenance arrangement. Training, implementation and EDI services revenues are recognized as the services are performed. When we believe that services are essential to the functionality of the product, we recognize revenue under the provisions of SOP 81-1. Most of our sales and licensing contracts involve multiple elements, in which case, we allocate the total value of the customer arrangement to each element based on the vendor specific objective evidence, or VSOE, of its fair value of the respective elements. The residual method is used to determine revenue recognition with respect to a multiple-element arrangement when VSOE of fair value exists for all of the undelivered elements (e.g., implementation, training and maintenance services), but does not exist for one or more of the delivered elements of the contract (e.g., computer software or hardware). VSOE of fair value is determined based upon the price charged when the same element is sold separately. If VSOE of fair value cannot be established for the undelivered element(s) of an arrangement, the total value of the customer arrangement is deferred until the undelivered element(s) is delivered or until VSOE of its fair value is established. In our contracts and arrangements with our customers, we generally do not include acceptance provisions, which would give the customer the right to accept or reject the product after we ship it. However, if an acceptance provision is included, revenue is recognized upon the customer’s acceptance of the product, which occurs upon the earlier receipt of a written customer acceptance or expiration of the acceptance period

Recognition of revenues in conformity with generally accepted accounting principles requires management to make judgments that affect the timing and amount of reported revenues.

Cash Equivalents and Marketable Debt Securities. Cash equivalents consist primarily of money market funds and are classified as available for sale and carried at fair value, which approximates cost.

Marketable debt securities consist of high quality debt instruments, primarily U.S. government, municipal and corporate obligations. Investments in corporate obligations are classified as held-to-maturity, as we have the intent and ability to hold them to maturity. Held-to-maturity marketable debt securities are reported at amortized cost. Investments in municipal obligations are classified as available-for-sale and are reported at fair value with unrealized gains and losses reported as other comprehensive income. Marketable debt securities include held-to-maturity investments with remaining maturities of less than one year as of the balance sheet date and available-for-sale investments that may be sold in the current period or used in current operations.

Accounts Receivable. Our accounts receivable are customer obligations due under normal trade terms carried at their face value, less provisions for bad debts. We evaluate the carrying amount of our accounts receivable on an ongoing basis and establish a valuation allowance based on a number of factors, including specific customer circumstances, historical rate of write-offs and the past due status of the accounts. At the end of each reporting period, the allowance is reviewed and analyzed for adequacy and is often adjusted based on the findings. The allowance is increased through an increase in bad debt expense.

Long-lived Assets. We review our long-lived assets, such as property and equipment, and purchased intangible assets that are subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be

fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis.

Goodwill and Business Combinations. Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of businesses acquired. We are required to test our goodwill for impairment of value on at least an annual basis. To date, the results of our tests have not revealed an impairment of value.

Software Development Costs. We begin capitalizing software development costs, exclusively third-party programmer fees, only after establishing commercial and technical feasibility. Annual amortization of these costs represents the greater of the amount computed using (i) the ratio that current gross revenues for the product(s) bear to the total current and anticipated future gross revenues of the product(s), or (ii) the straight-line method over the remaining estimated economic life of the product(s); generally, depending on the nature and success of the product, such deferred costs are amortized over a three- to seven-year period. Amortization commences when the product is made commercially available. No products were made commercially available in 2005 or 2006. In 2007, we did not capitalize any costs related to products that were made commercially available during the year, as such amounts were immaterial.

We evaluate the recoverability of capitalized software based on estimated future gross revenues less the estimated cost of completing the products and of performing maintenance and product support. If our gross revenues turn out to be significantly less than our estimates, the net realizable value of our capitalized software intended for sale would be impaired.

Income Taxes. We provide for taxes based on current taxable income, and the future tax consequences of temporary differences between the financial reporting and income tax carrying values of our assets and liabilities (deferred income taxes). At each reporting period, management assesses the realizable value of deferred tax assets based on, among other things, estimates of future taxable income, and adjusts the related valuation allowance as necessary. In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48"). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. FIN 48 prescribes a recognition threshold of more-likely — than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective January 1, 2007, we adopted the provisions of FIN 48 and there has been no material effect on the financial statements. As a result, there was no cumulative effect related to adopting FIN 48.

Accounting for Share-Based Payment. We account for share-based payments in accordance with SFAS 123(R), "Share-Based Payment." Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period which is generally the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and our results of operations could be materially impacted.

Loss Contingencies. We are subject to legal proceedings, lawsuits and other claims relating to labor, service and other matters arising in the ordinary course of business. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109” (“FIN 48”). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company’s financial statements. The first step prescribes a recognition threshold of more-likely — than-not, and the second step is a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order to be recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 31, 2006. Accordingly, we adopted FIN 48 on January 1, 2007, and there was no material effect on the financial statements. As a result, there was no cumulative effect relating to adopting FIN 48.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in US GAAP and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. The FASB has provided a one-year deferral for the implementation for other nonfinancial assets and liabilities. We anticipate that the adoption of SFAS 157 will have no material impact on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). SFAS 159 allows companies to elect to measure many financial assets and financial liabilities at fair value (the “fair value option”). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS 159 specifies that all subsequent changes in fair value for that instrument must be reported in earnings. We are currently evaluating whether we will apply the voluntary fair value option to any of our financial assets or financial liabilities.

In December 2007, the FASB issued SFAS No. 141-R, “Business Combinations” (“SFAS 141-R”). This statement replaces SFAS No. 141, but retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. This statement requires an acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. The statement requires acquisition costs and any restructuring costs associated with the business combination to be recognized separately from the fair value of the business combination. SFAS No. 141-R establishes requirements for recognizing and measuring goodwill acquired in the business combination or a gain from a bargain purchase as well as disclosure requirements designed to enable users to better interpret the results of the business combination. SFAS No. 141-R is effective for fiscal years beginning on or after December 15, 2008. We are currently evaluating the effect that the adoption of SFAS 141-R will have on our financial position and results of operations. Early adoption of this statement is not permitted.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We believe we are not subject to material foreign currency exchange rate fluctuations, as most of our sales and expenses are domestic and therefore are denominated in the U.S. dollar. We do not hold derivative securities and have not entered into contracts embedded with derivative instruments, such as foreign currency and interest rate swaps, options, forwards, futures, collars, and warrants, either to hedge existing risks or for speculative purposes.

As of December 31, 2007, we held approximately \$8.5 million in cash and cash equivalents and \$67.1 million in marketable debt securities. Cash equivalents are carried at fair value, which approximates cost. Available for sale marketable securities are carried at fair value, and held to maturity securities are held at amortized cost.

We are exposed to market risk, including changes in interest rates affecting the return on our investments. We have established procedures to manage our exposure to fluctuations in interest rates.

Exposure to market rate risk for changes in interest rates relates to our investment in marketable debt securities of \$67.1 million at December 31, 2007. We have not used derivative financial instruments in our investment portfolio. We place our investments with high-quality issuers and have policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. We manage potential losses in fair value by investing in relatively short term investments thereby allowing us to hold our investments to maturity. The current negative liquidity conditions in the global credit markets can adversely impact the liquidity of these securities; however, the investments are AAA rated, and the Company is not relying on these securities for short-term cash needs. Our investments have an average remaining maturity of approximately six months and are primarily fixed-rate debt instruments. Based on a hypothetical 10% adverse movement in interest rates, the potential losses in future earnings and cash flows are estimated to be \$205,000.

Item 8. *Financial Statements and Supplementary Data*

Our audited consolidated financial statements and related notes as of December 31, 2007 and 2006 and for each of the years ended December 31, 2007, 2006 and 2005 are included under Item 15 and begin on page F-1.

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

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed and summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2007, our disclosure controls and procedures were effective.

Changes in Internal Controls

There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during the fourth quarter of our last fiscal year, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (“GAAP”). The Company’s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the receipts and expenditures of the Company are being made only in accordance with authorizations of its management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the results of this assessment, management (including our Chief Executive Officer and our Chief Financial Officer) has concluded that, as of December 31, 2007, our internal control over financial reporting was effective.

BDO Seidman, LLP has issued an attestation report on the Company's internal control over financial reporting. That report appears on page F-1 of this Form 10-K.

Item 9B. *Other Information*

None.

PART III

Certain information required by Part III of this Annual Report on Form 10-K is omitted because the Company expects to file a definitive proxy statement pursuant to Regulation 14A of the Exchange Act with respect to its 2008 Annual Meeting of Stockholders expected to be held on June 3, 2008 (the "Proxy Statement"), not later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information to be included therein is incorporated herein by reference.

Item 10. *Directors, Executive Officers and Corporate Governance*

Information about our executive officers is contained under the caption "Employees" in Part I hereof. We have adopted a Code of Business Conduct and Ethics for our directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and employees. Our Code of Business Conduct and Ethics is available on our website at www.amicas.com/investor. We intend to disclose any amendments to, or waivers from, our Code of Business Conduct and Ethics on our website. Disclosure regarding any amendments to, or waivers from, provisions of our Code of Business Conduct and Ethics that apply to our directors, Chief Executive Officer or Chief Financial Officer will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting is permitted by the rules of The NASDAQ Global Market. Stockholders may request a free copy of the Code of Business Conduct and Ethics by writing to Investor Relations, AMICAS, Inc., 20 Guest Street, Boston, Massachusetts 02135-2040.

The remainder of the response to this item is contained in the Proxy Statement under the captions "Corporate Governance Matters," and "Management," and is incorporated herein by reference. Information relating to delinquent filings of Forms 3, 4, and 5 of the Company is contained in the Proxy Statement under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934," and is incorporated herein by reference.

Item 11. *Executive Compensation*

The response to this item is contained in the Proxy Statement under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report," and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The response to this item is contained in the Proxy Statement in part under the caption “Stock Ownership of Certain Beneficial Owners and Management” and in part below.

Equity Compensation Plan Information

The following table provides certain aggregate information with respect to all of our equity compensation plans in effect as of December 31, 2007:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders(1)	3,074,418	\$3.87	5,821,494(2)
Equity compensation plans not approved by security holders(3)	<u>3,998,622</u>	<u>\$2.82</u>	<u>—</u>
Total	7,073,040	\$3.27	5,821,494

(1) Consists of our:

- 2006 Stock Incentive Plan;
- 2002 Employee Stock Purchase Plan;
- 1996 Stock Option Plan;
- Length-of-Service Nonqualified Stock Option (“LOSSO”) Plan; and
- Directors Stock Option Plan.

The 2006 Stock Incentive Plan replaced our 1996 Stock Option Plan (the “1996 Plan”). Options outstanding under the 1996 Plan continue to have force and effect in accordance with the provisions of the instruments evidencing such options. However, no further options will be granted under the 1996 Plan, and no shares remain reserved for issuance under this plan. The Directors Stock Option Plan terminated on September 9, 2007.

- (2) Includes 5,821,494 shares issuable under our 2006 Stock Incentive Plan. Directors and employees are eligible to receive grants under the 2006 Stock Incentive Plan, which is administered by our Compensation Committee. The Compensation Committee approves options, rights or stock grants under the 2006 Stock Incentive Plan, including (i) the number of shares of common stock covered by such options, rights or stock grants, (ii) the dates upon which such options, rights or stock grants become exercisable (which is typically over a three to four year period), (iii) the exercise price of such options, rights or stock grants (which may not be less than the fair market value of a share of stock on the date the option or right is granted), and (iv) the duration of the options, rights or stock grants (which may not exceed ten years). The Compensation Committee has delegated to our Chief Executive Officer the authority to grant a limited number of options under the 2006 Stock Incentive Plan to new and current employees, other than executive officers and certain other officers. As of December 31, 2007, our Chief Executive Officer had the authority to grant options for up to 116,876 shares of our common stock.
- (3) Consists of our 2000 Broad-Based Stock Plan (the “2000 Plan”), for which stockholder approval was neither sought nor obtained, and which was adopted by the Board of Directors effective June 13, 2000. The 2006 Stock Incentive Plan replaced the 2000 Plan. Options outstanding under the 2000 Plan continue to have force and effect in accordance with the provisions of the instruments evidencing such options. However, no further options will be granted under the 2000 Plan, and no shares remain reserved for issuance under this plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The response to this item is contained in the Proxy Statement under the captions “Certain Relationships and Related Transactions,” “Corporate Governance Matters — Director Independence” and “Compensation Committee Report, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The response to this item is contained in the Proxy Statement under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm,” and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) *Financial Statements.* The financial statements beginning on page F-1 of this report are filed as part of this report on the pages indicated. Financial statement schedules are not included as they are not applicable as all items are included in the financial statements.

Financial Statements and Supplementary Data

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(a)(2) *Exhibits.* The exhibits required by Item 601 of Regulation S-K are listed below.

<u>Exhibit No.</u>	<u>Description</u>
2.1	— Agreement and Plan of Distribution, dated as of February 21, 2001, by and between InfoCure Corporation and PracticeWorks, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
2.2	— Agreement and Plan of Merger, dated as of November 25, 2003, by and among VitalWorks Inc., PACS Acquisition Corp., AMICAS, Inc., and the Stockholders’ Representative (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on December 10, 2003).
2.3	— First Amendment to Agreement and Plan of Merger dated as of December 9, 2004 by and among VitalWorks Inc., AMICAS, Inc., and Seth Rudnick, Hamid Tabatabaie and Alexander Spiro solely in their representative capacity as “Committee Members” constituting the Stockholders’ Representative (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on December 10, 2004).
3.1	— Certificate of Incorporation of Infocuse Corporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant’s Annual Report on Form 10-K, filed with the Commission on March 30, 2000).
3.2	— Third Amended and Restated Bylaws of AMICAS, Inc (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on December 7, 2008).
4.1	— Specimen Certificate for shares of common stock (incorporated by reference to Exhibit 4.2 to the Registrant’s Annual Report on Form 10-K, filed with the Commission March 30, 2005).

<u>Exhibit No.</u>	<u>Description</u>
4.2	— Rights Agreement, including all exhibits, dated as of December 5, 2002, between VitalWorks Inc. and StockTrans, Inc., as Rights Agent (incorporated by reference to Exhibit 4 to the Registrant’s Current Report on Form 8-K, filed with the Commission on December 9, 2002).
4.3	— Amended and Restated Warrant, originally issued to Crescent International Ltd. on September 28, 1998, as amended and restated on March 6, 2001 (incorporated by reference to Exhibit 10.44 to the Registrant’s Annual Report on Form 10-K, filed with the Commission on April 2, 2001).
10.1†	— InfoCure Corporation 1996 Stock Option Plan (incorporated by reference to Exhibit 10.1 to InfoCure’s Registration Statement on Form SB-2, filed with the Commission on December 27, 1996)
10.2†	— Form of Incentive Stock Option Agreement of InfoCure Corporation (incorporated by reference to Exhibit 10.2 to InfoCure’s Registration Statement on Form SB-2, filed with the Commission on December 27, 1996)
10.3†	— InfoCure Corporation 1997 Directors’ Stock Option Plan (incorporated by reference to Exhibit 10.48 to InfoCure’s Annual Report on Form 10-KSB, filed with the Commission on April 1, 1998).
10.4†	— InfoCure Corporation Length-of-Service Nonqualified Stock Option Plan (incorporated by reference to Exhibit 10.49 to InfoCure’s Annual Report on Form 10-KSB, filed with the Commission on April 1, 1998).
10.5†	— Amendment to InfoCure Corporation 1996 Stock Option Plan (incorporated by reference to Exhibit 10.15 to the Registrant’s Annual Report on Form 10-K, filed with the Commission on March 30, 2000).
10.6†	— Amendment to InfoCure Corporation Length-of-Service Nonqualified Stock Option Plan (incorporated by reference to Exhibit 10.16 to the Registrant’s Annual Report on Form 10-K, filed with the Commission on March 30, 2000).
10.7	— Tax Disaffiliation Agreement, dated as of March 5, 2001, by and between InfoCure Corporation and PracticeWorks, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
10.8†	— Employee Benefits and Compensation Allocation Agreement, dated as of March 5, 2001, by and between InfoCure Corporation and PracticeWorks, Inc. (incorporated by reference to Exhibit 10.4 to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
10.9	— Intellectual Property License Agreement, dated as of March 5, 2001, by and between InfoCure Corporation and PracticeWorks Systems, LLC (incorporated by reference to Exhibit 10.5(a) to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
10.10	— Intellectual Property License Agreement, dated as of March 5, 2001, by and between InfoCure Corporation and PracticeWorks Systems, LLC (incorporated by reference to Exhibit 10.5(b) to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
10.11	— Assignment of Copyrights, dated as of March 5, 2001, by and between InfoCure Corporation and PracticeWorks Systems, LLC (incorporated by reference to Exhibit 10.5(c) to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
10.12	— Assignment of Trademarks, dated as of March 5, 2001, by and between InfoCure Corporation and PracticeWorks Systems, LLC (incorporated by reference to Exhibit 10.5(d) to the Registrant’s Current Report on Form 8-K, filed with the Commission on March 20, 2001).
10.13†	— InfoCure Corporation 2000 Broad-Based Stock Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2000).
10.14	— Lease Agreement, dated March 13, 2001, by and between InfoCure Corporation and Joseph V. Fisher, LLC (incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on May 16, 2001).
10.15	— Form of Letter to Stockholders (incorporated by reference to Exhibit 20 to the Registrant’s Current Report on Form 8-K, filed with the Commission on December 9, 2002).
10.16†	— Form of Employment Agreement, dated April 26, 2004, by and between VitalWorks Inc. and our Named Executive Officers (incorporated by reference to Exhibit 10 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on May 10, 2004).
10.17†	— Amended Employment Agreement, dated July 26, 2004, by and between VitalWorks Inc. and Stephen N. Kahane (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on November 9, 2004).

<u>Exhibit No.</u>	<u>Description</u>
10.18†	— Employment Agreement, dated October 1, 2004, by and between VitalWorks Inc. and Joseph D. Hill (incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on November 9, 2004).
10.19	— Asset Purchase Agreement, dated as of November 15, 2004, by and between VitalWorks Inc. and Cerner Corporation (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on November 18, 2004).
10.20	Agreement of Sublease, dated February 15, 2005, by and among AMICAS, Inc. and Patientkeeper, Inc. (incorporated by reference to 10.1 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on May 10, 2005).
10.21	Amended and Restated Sublease, dated March 8, 2005, by and among AMICAS, Inc. and Chordiant Software, Inc. (incorporated by reference to 10.2 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on May 10, 2005).
10.22†	— Employment Agreement, dated March 28, 2005, by and between AMICAS, Inc. and Peter McClennen (incorporated by reference to Exhibit 2.1 to the Registrant’s Current report on Form 8-K, filed with the Commission on March 31, 2005).
10.23†	— AMICAS, Inc. 401(k) Retirement Savings Plan effective December 1, 2005 (incorporated by reference to Exhibit 10.34 to the Registrant’s Annual Report on Form 10-K, filed with the Commission on March 31, 2006).
10.24†	— 2006 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to the Registrant’s Registration Statement on Form S-8, filed with the Commission on July 24, 2006).
10.25†	— Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on July 25, 2006).
10.26†	— Form of Incentive Stock Option Agreement under 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K, filed with the Commission on July 25, 2006).
10.27†	— Form of Nonqualified Stock Option Agreement under 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant’s Current Report on Form 8-K, filed with the Commission on July 25, 2006).
10.28†	— Form of Restricted Stock Agreement for Employees under 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant’s Current Report on Form 8-K, filed with the Commission on July 25, 2006).
10.29†	— Form of Restricted Stock Agreement for Non-Employee Directors under 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Registrant’s Current Report on Form 8-K, filed with the Commission on July 25, 2006).
10.30†	— 2007 Employee Stock Purchase Plan (incorporated by reference as Exhibit A to the Registrant’s Definitive Proxy Statement on Schedule 14A for its 2007 Annual Meeting of Stockholders, filed with Commission on April 30, 2007).
10.31†	— Amended and Restated Directors Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on July 10, 2007).
10.32†	— Separation Agreement, dated October 25, 2007, by and between AMICAS, Inc. and Peter McClennen (incorporated by reference as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q, filed with the Commission on November 11, 2007).
10.33*	— Lease agreement, dated October 18, 2007, by and between AMICAS, Inc and Brighton Landing, LLC.
21.1	— Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to Registrant’s Annual Report on Form 10-K, filed with the Commission on March 30, 2005).
23.1*	— Consent of BDO Seidman, LLP, an independent registered public accounting firm.
31.1*	— Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	— Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	— Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

† Management contract or compensatory plan or arrangement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Stockholders
AMICAS, Inc.
Boston, Massachusetts

We have audited Amicas, Inc. and subsidiary's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AMICAS, Inc. and subsidiary management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AMICAS, Inc and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AMICAS, Inc. as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2007 and our report dated March 13, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Boston, Massachusetts
March 13, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AMICAS, Inc.
Boston, Massachusetts

We have audited the accompanying consolidated balance sheets of AMICAS, Inc. and its subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMICAS, Inc. and Subsidiary at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

As described in Note M of the financial statements, AMICAS, Inc. adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," effective January 1, 2006.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AMICAS, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Boston, Massachusetts
March 13, 2008

AMICAS, INC. and Subsidiary
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,536	\$ 7,331
Marketable securities	67,071	64,436
Accounts receivable, net of allowances of \$231 and \$1,050	10,483	11,387
Prepaid expenses and other current assets	3,600	4,729
Total current assets	89,690	87,883
Property and equipment, less accumulated depreciation and amortization of \$6,848 and \$6,155	1,186	1,369
Goodwill	27,313	27,313
Acquired/developed software, less accumulated amortization of \$7,992 and \$6,035	8,008	7,665
Other intangible assets, less accumulated amortization of \$1,742 and \$1,316	1,658	2,084
Other assets	586	557
Total assets	\$128,441	\$126,871
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 7,094	\$ 7,155
Accrued employee compensation and benefits	1,451	897
Deferred revenue, including unearned discounts of \$- and \$336	10,375	10,867
Total current liabilities	18,920	18,919
Unrecognized tax benefits	1,275	—
Other liabilities, primarily unearned discounts re: outsourced printing services	—	397
Commitments and contingencies (see Note L)		
Stockholders' equity:		
Preferred stock \$.001 par value; 2,000,000 shares authorized; none issued	—	—
Common stock \$.001 par value, 200,000,000 shares authorized, 51,296,823 and 51,066,966 shares issued	51	51
Additional paid-in capital	229,056	226,764
Accumulated deficit	(98,478)	(97,616)
Accumulated other comprehensive income (loss)	60	(4)
Treasury stock, at cost, 6,824,192 and 6,523,392 shares	(22,443)	(21,640)
Total stockholders' equity	108,246	107,555
Total liabilities and stockholders' equity	\$128,441	\$126,871

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

AMICAS, INC. and Subsidiary
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands, except per share data)		
Revenues			
Maintenance and services	\$38,175	\$36,258	\$36,813
Software licenses and system sales	<u>11,713</u>	<u>13,179</u>	<u>15,998</u>
Total revenues	<u>49,888</u>	<u>49,437</u>	<u>52,811</u>
Costs and expenses			
Cost of revenues:			
Maintenance and services	16,469	15,003	14,163
Software licenses and system sales, includes amortization of software costs of \$1,957 in 2007, \$1,958 in 2006 and \$1,965 in 2005	6,486	7,644	6,413
Selling, general and administrative	21,810	21,770	20,701
Research and development	8,527	8,705	9,047
Depreciation and amortization	1,119	1,238	1,777
Settlement, severance and impairment charges	<u>—</u>	<u>—</u>	<u>5,677</u>
	<u>54,411</u>	<u>54,360</u>	<u>57,778</u>
Operating loss	(4,523)	(4,923)	(4,967)
Interest income	3,870	3,753	2,516
Interest expense	<u>—</u>	<u>—</u>	<u>(751)</u>
Loss from continuing operations, before income taxes	(653)	(1,170)	(3,202)
Provision for (Benefit from) income taxes	<u>209</u>	<u>84</u>	<u>(1,197)</u>
Loss from continuing operations	(862)	(1,254)	(2,005)
Gain on sale of discontinued operations, net of benefit from taxes of \$230 in 2006 and provision for taxes of \$33,906 in 2005	—	230	46,277
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>(57)</u>
Net (loss) income	<u>\$ (862)</u>	<u>\$ (1,024)</u>	<u>\$44,215</u>
Earnings (loss) per share:			
Basic:			
Continuing operations	\$ (0.02)	\$ (0.03)	\$ (0.04)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>1.00</u>
	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ 0.96</u>
Diluted:			
Continuing operations	\$ (0.02)	\$ (0.03)	\$ (0.04)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>1.00</u>
	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ 0.96</u>
Weighted average number of shares outstanding:			
Basic	<u>44,657</u>	<u>46,499</u>	<u>46,285</u>
Diluted	<u>44,657</u>	<u>46,499</u>	<u>46,285</u>

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

AMICAS, INC. and Subsidiary
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME (LOSS)

	Shares		Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Comprehensive Loss
	Common Stock	Treasury Stock							
	(In thousands, except share data)								
Balance at December 31, 2004	46,338,568	(1,985,502)	\$46	\$211,888	\$(140,807)	\$—	\$ (6,472)	\$ 64,655	\$ —
Issuance of common stock, net of related expense for:									
Matching contribution 401(k) plan	32,099			161				161	
Exercise of stock options	3,985,017		4	8,989				8,993	
Modification of stock option agreements				1,211				1,211	
Tax benefit from change in valuation allowance from stock option exercises				678				678	
Net income (loss)					44,215			44,215	
Balance at December 31, 2005	50,355,684	(1,985,502)	50	222,927	(96,592)	—	(6,472)	119,913	
Issuance of common stock, net of related expense for:									
Exercise of stock options and issuance of shares under the Employee Stock Purchase Plan	681,602		1	1,631				1,632	
Issuance of restricted stock	29,680			37				37	
Repurchase of treasury stock		(4,537,890)					(15,168)	(15,168)	
Share-based payment				1,736				1,736	
Unrealized loss on marketable securities						(4)		(4)	(4)
Tax benefit from change in valuation allowance from stock option exercises				443				443	
Net income (loss)					(1,024)			(1,024)	(1,024)
Total comprehensive loss									(1,028)
Balance at December 31, 2006	51,066,966	(6,523,392)	51	226,764	(97,616)	(4)	(21,640)	107,555	
Issuance of common stock, net of related expense for:									
Exercise of stock options	203,872			414				414	
Issuance of restricted stock	25,985			71				71	
Repurchase of treasury stock		(300,800)					(803)	(803)	
Share-based payment				1,807				1,807	
Unrealized gain on marketable securities						64		64	64
Net income (loss)					(862)			(862)	(862)
Total comprehensive loss									(798)
Balance at December 31, 2007	<u>51,296,823</u>	<u>(6,824,192)</u>	<u>\$51</u>	<u>\$229,056</u>	<u>\$ (98,478)</u>	<u>\$60</u>	<u>\$(22,443)</u>	<u>\$108,246</u>	

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

AMICAS, INC. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Operating activities			
Loss from continuing operations	\$ (862)	\$ (1,254)	\$ (2,005)
Income from discontinued operations	—	230	46,220
Net (loss) income	(862)	(1,024)	44,215
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Gain from the sale of discontinued operations	—	(230)	(81,143)
Depreciation and amortization	1,119	1,238	1,777
Provisions for bad debts	185	746	(1,432)
Gain on sale of fixed assets	—	(6)	(41)
Write-off of deferred financing costs	—	—	661
Amortization of software development costs	1,957	1,958	1,965
Deferred income taxes	—	—	28,200
Non-cash stock compensation expense	1,878	1,763	1,211
Changes in operating assets and liabilities:			
Accounts receivable	719	3,184	(2,460)
Prepaid expenses and other current assets	1,100	(2,558)	2,070
Accounts payable and accrued expenses	493	(3,549)	(908)
Deferred revenue including unearned discount	(889)	2,043	(2,339)
Other liabilities	—	—	(143)
Unrecognized tax benefits	1,275	—	—
Tax benefit from change in valuation allow related to stock option exercises	—	—	678
Cash provided by (used in) operating activities	6,975	3,565	(7,689)
Investing activities			
Proceeds from sale of discontinued operations	—	—	98,408
Payment of transaction costs related to sale of discontinued operations	—	—	(1,043)
Proceeds from sale of assets	—	6	268
Purchases of property and equipment	(510)	(921)	(684)
Purchase of technology	(2,300)	—	—
Purchases of held-to-maturity securities	(94,898)	(49,094)	—
Maturities of held-to-maturity securities	100,263	22,762	—
Purchases of available-for-sale securities	(45,275)	(48,405)	—
Sales of available-for-sale securities	37,340	10,297	—
Cash (used in) provided by investing activities	(5,380)	(65,355)	96,949
Financing activities			
Principal repayments on long-term debt	—	—	(28,673)
Repurchase of common stock	(803)	(15,168)	—
Exercise of stock options and warrants	413	1,632	8,993
Tax benefit from change in valuation allow related to stock option exercises	—	443	—
Cash used in financing activities	(390)	(13,093)	(19,680)
Increase (decrease) in cash and cash equivalents	1,205	(74,883)	69,580
Cash and cash equivalents at beginning of year	7,331	82,214	12,634
Cash and cash equivalents at end of year	\$ 8,536	\$ 7,331	\$ 82,214

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

AMICAS, INC. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Business

AMICAS, Inc. (“AMICAS” or the “Company”), formerly known as VitalWorks Inc., is a leader in radiology and medical image and information management solutions. The AMICAS Vision Series products provide a complete, end-to-end IT solution for imaging centers, ambulatory care facilities, and radiology practices and billing services. Solutions include automation support for workflow, imaging, revenue cycle management and document management. Hospital customers are provided a best-of-breed picture archiving and communication system (“PACS”), featuring advanced enterprise workflow support and a scalable design that can fully integrate with any hospital information system (“HIS”), radiology information system (“RIS”), or electronic medical record (“EMR”). Complementing the Vision Series product family is AMICAS Insight SolutionsSM, a set of client-centered professional and consulting services that assist the Company’s customers with a well-planned transition to a digital enterprise. In addition, the Company provides customers with ongoing software and hardware support, implementation, training, and electronic data interchange (“EDI”) services for patient billing and claims processing.

On January 3, 2005, the Company completed the sale of substantially all of the assets and liabilities of its medical division, together with certain other assets, liabilities, properties and rights of the Company relating to its anesthesiology business (the “Medical Division”) to Cerner Corporation (“Cerner”) and certain of Cerner’s wholly-owned subsidiaries (the “Asset Sale”). The Asset Sale was completed in accordance with the terms and conditions of the Asset Purchase Agreement between the Company and Cerner dated as of November 15, 2004 (the “Purchase Agreement”) (see Note E).

Effective January 3, 2005, the Company changed its name from VitalWorks Inc. to AMICAS, Inc.

B. Segment Reporting

Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information,” (“SFAS 131”) established standards for reporting information about operating segments in a company’s financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, the Company’s chief executive officer, in deciding how to allocate resources and in assessing performance. The Company has identified one reportable industry segment: the development and marketing of the Company’s products and services to radiology practices, including hospital radiology departments and ambulatory imaging centers. The Company generates substantially all of its revenues from the licensing of the Company’s software products and related professional services and maintenance services. The Company’s revenues are earned and expenses are incurred principally in the United States market.

C. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Amicas PACS, Corp. (“Amicas PACS”), formerly known as Amicas, Inc., which was acquired on November 25, 2003. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements and related disclosures 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 and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the realization of deferred tax assets, tax contingencies and valuation allowances, restructuring reserves, useful lives for depreciation and amortization periods of tangible and intangible assets, long-lived asset impairments, expected stock price volatility and weighted average expected life and

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

forfeiture assumptions for share-based payments, among others. The markets for the Company's products are characterized by intense competition, rapid technological development, evolving standards, short product life cycles and price competition, all of which could impact the future realized value of the Company's assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition", as amended by SOP 98-9, "Modification of SOP 97-2 with Respect to Certain Transactions", SOP 81-1 "Accounting for Performance of Construction Type and Certain Performance Type Contracts," the Securities and Exchange Commission's Staff Accounting Bulletin 104, "Revenue Recognition in Financial Statements" ("SAB 104") and EITF 01-14, "Income Statement Characterization of Reimbursements for 'Out-of-Pocket' Expenses Incurred." Software license revenues and system (computer hardware) sales are recognized upon execution of the sales contract and delivery of the software (off-the-shelf application software) and/or hardware. In all cases, however, the fee must be fixed or determinable, collection of any related receivable must be considered probable, and no significant post-contract obligations of the Company shall be remaining. Otherwise, the sale is deferred until all of the requirements for revenue recognition have been satisfied. Maintenance fees for routine client support and unspecified product updates are recognized ratably over the term of the maintenance arrangement. Training, implementation and EDI services revenues are recognized as the services are performed. When the Company believes that services are essential to the functionality of the product, the Company recognizes revenue under the provisions of SOP 81-1. Most of the Company's sales and licensing contracts involve multiple elements, in which case, the Company allocates the total value of the customer arrangement to each element based on the vendor specific objective evidence ("VSOE") of the fair value of the respective elements. The residual method is used to determine revenue recognition with respect to a multiple-element arrangement when VSOE of fair value exists for all of the undelivered elements (e.g., implementation, training and/or maintenance services), but does not exist for one or more of the delivered elements of the contract (e.g., computer software). VSOE of fair value is determined based upon the price charged when the same element is sold separately. If VSOE of fair value cannot be established for the undelivered element(s) of an arrangement, the total value of the customer arrangement is deferred until the undelivered element(s) is delivered or until VSOE of its fair value is established. In the Company's contracts and arrangements with its customers, the Company generally does not include acceptance provisions, which would give the customer the right to accept or reject the product after the Company ships it. However, if an acceptance provision is included, revenue is recognized upon the customer's acceptance of the product, which occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period.

Recognition of revenues in conformity with generally accepted accounting principles requires management to make judgments that affect the timing and amount of reported revenues.

Cash and Cash Equivalents

The Company considers all liquid investment instruments with original maturities of ninety days or less to be cash equivalents.

Cash equivalents consist primarily of money market funds and are carried at fair value, which approximates cost.

Marketable Securities

Marketable securities consist of high quality debt instruments, primarily U.S. government, municipal and corporate obligations. Investments in corporate obligations are classified as held-to-maturity, as the Company has the intent and ability to hold them to maturity. Held-to-maturity marketable debt securities are reported at amortized

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

cost. Investments in U.S. government and municipal obligations are classified as available-for-sale and are reported at fair value with unrealized gains and losses reported as other comprehensive income or loss.

Concentration of Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and trade accounts receivable. The Company places its cash and cash equivalents with financial institutions with high credit ratings. The Company invests in marketable securities, including auction rate securities. The current negative liquidity conditions in the global credit markets can adversely impact the liquidity of these securities; however, the investments are AAA rated, and the Company is not relying on these securities for short-term cash needs.

The Company performs credit evaluations of its customers' financial condition and does not require collateral, since management does not anticipate nonperformance of payment. The Company also maintains reserves for potential credit losses and such losses have been within management's expectations. At December 31, 2007 and 2006, no customer represented greater than 10% of the Company's revenues or net accounts receivable balance.

Accounts Receivable, Revenue Reserve and Allowance for Doubtful Accounts

The Company's accounts receivable are customer obligations due under normal trade terms carried at their face value, less provisions for bad debts. The Company evaluates the carrying amount of its accounts receivable on an ongoing basis and establishes a valuation allowance based on a number of factors, including specific customer circumstances, historical rate of write-offs and the past due status of the accounts. At the end of each reporting period, the allowance is reviewed and analyzed for adequacy and is often adjusted based on the findings. The allowance is increased through a reduction of revenues and/or an increase in bad debt expense.

The following table summarizes the allowance for doubtful accounts for the three years ended December 31, 2007:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of period	\$ 1,050	\$ 767	\$ 2,200
Additions charged to costs and expenses	185	746	140
Additions charged to other accounts(a)	—	—	229
Reductions(b)	<u>(1,004)</u>	<u>(463)</u>	<u>(1,802)</u>
Balance at end of period	<u>\$ 231</u>	<u>\$1,050</u>	<u>\$ 767</u>

(a) Charged to revenues

(b) Write-offs, returns and discounts, net of recoveries.

Fair Value

All current assets and current liabilities, because of their short-term nature, are stated at cost or face value, which approximates market value.

Long-lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company periodically reviews long-lived assets, other than goodwill, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded carrying value for the asset.

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. The Company believes there is no impairment to its long-lived assets at December 31, 2007.

Goodwill and Business Combinations

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. The Company no longer amortizes its goodwill assets. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," the Company is required to test its goodwill for impairment of value on at least an annual basis. To date, the results of the Company's tests have not revealed an impairment of value.

Software Development Costs

The Company begins capitalizing software development costs, primarily third-party programmer fees, only after establishing commercial and technological feasibility. Annual amortization of these costs represents the greater of the amount computed using (i) the ratio that current gross revenues for the product(s) bear to the total current and anticipated future gross revenues of the product(s), or (ii) the straight-line method over the remaining estimated economic life of the product(s). Generally, depending on the nature and success of the product, such deferred costs are amortized over a five- to seven-year period. Amortization commences when the product is made commercially available.

The Company evaluates the recoverability of capitalized software based on estimated future gross revenues less the estimated cost of completing the products and of performing maintenance and product support. If gross revenues turn out to be significantly less than the Company's estimates, the net realizable value of capitalized software intended for sale would be impaired.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed principally using the straight-line method over the estimated economic or useful lives of the applicable assets. Leasehold improvements are amortized over the lesser of the remaining life of the lease or the useful life of the improvements. The cost of maintenance and repairs is charged to expense as incurred.

Income Taxes

The Company provides for taxes based on current taxable income, and the future tax consequences of temporary differences between the financial reporting and income tax carrying values of its assets and liabilities (deferred income taxes). At each reporting period, management assesses the realizable value of deferred tax assets based on, among other things, estimates of future taxable income, and adjusts the related valuation allowance as necessary. Effective January 1, 2007, the Company adopted FIN 48. In each reporting period the Company assesses each individual tax position to determine if it satisfies some or all of the benefits of each position to be recognized in a company's financial statements. Under FIN 48, the Company applies a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step prescribes a recognition threshold of more-likely — than-not, and the second step is a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order to be recognized in the financial

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share (“EPS”) (*in thousands, except per share data*):

	Year Ended December 31,		
	2007	2006	2005
Numerator — income (loss):			
Continuing operations	\$ (862)	\$ (1,254)	\$ (2,005)
Discontinued operations	—	230	46,220
	\$ (862)	\$ (1,024)	\$44,215
Denominator:			
Basic EPS — weighted-average shares	44,657	46,499	46,285
Effect of dilutive securities, stock option and warrant rights	—	—	—
Diluted EPS — adjusted weighted-average shares and assumed conversions	44,657	46,499	46,285
Basic EPS:			
Continuing operations	\$ (0.02)	\$ (0.03)	\$ (0.04)
Discontinued operations	0.00	0.00	1.00
	\$ (0.02)	\$ (0.03)	\$ 0.96
Diluted EPS:			
Continuing operations	\$ (0.02)	\$ (0.03)	\$ (0.04)
Discontinued operations	0.00	0.00	1.00
	\$ (0.02)	\$ (0.03)	\$ 0.96

Because their effect would be antidilutive, stock option and warrant rights were excluded from the diluted calculation for the years 2007, 2006 and 2005. For the years ended December 31, 2007, 2006 and 2005, the dilutive effect of stock options and warrants under the treasury method is 0.8 million shares, 1.25 million shares, and 3.37 million shares, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) is a measure of all changes in equity of an enterprise that results from recognized transactions and other economic events of a period other than transactions with owners in their capacity as owners. Comprehensive income (loss) for the twelve months ended December 31, 2007 and December 31, 2006 consists of net income (loss) and net unrealized gains on marketable securities. The Company has disclosed the components of comprehensive income (loss) in its Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss).

Share Based Payment

The Company adopted SFAS 123(R) “Share Based Payment” (“SFAS 123R”) as of January 1, 2006. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period which is generally the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, the term of related options, share price volatility and the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

compensation expense and our results of operations could be materially impacted. See Note N for additional information related to share-based payments

Prior to the adoption of SFAS 123R, the Company accounted for employee stock option grants and stock awards, based on their intrinsic value, in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under the intrinsic value method, compensation expense is recognized if the exercise price of the employee stock option is less than the market price of the underlying stock on the date of grant or if the number of shares is not fixed. The weighted-average estimated grant date fair value, as defined by SFAS 123 "Accounting for Stock-Based Compensation" ("SFAS 123") of options granted in 2005 was \$2.38 as calculated using the Black-Scholes option valuation model. The Company priced its fixed stock options at fair market value on the date of grant, and therefore, under Opinion 25, no compensation expense was recognized for stock options granted. The following table illustrates the effect on loss from continuing operations and the related loss per share if the Company had applied the fair value recognition provisions of SFAS 123, as amended, to stock-based employee compensation (*in thousands, except per share data*):

	Year Ended December 31, 2005
Loss from continuing operations, as reported	\$(2,005)
Less: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(2,934)</u>
Pro forma loss from continuing operations	<u><u>\$(4,939)</u></u>
Loss per share from continuing operations:	
Basic and diluted — as reported	<u>\$ (0.04)</u>
Basic and diluted — pro forma	<u><u>\$ (0.11)</u></u>

The fair value of the Company's employee stock options was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Year Ended December 31, 2005
Risk-free interest rate	4.1%
Expected dividend yield	0.0
Expected stock price volatility	63.1%
Weighted average expected life	4.8 years

The Black-Scholes option valuation model was not developed for use in valuing employee stock options. Instead, this model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable, which differ significantly from the Company's stock option awards. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

D. Recent Accounting Pronouncements

In June 2006, the FASB issued FIN 48. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. The first step prescribes a recognition threshold of more-likely — than-not, and the second step is a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order to be recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 31, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accordingly, the Company adopted FIN 48 on January 1, 2007, and there was no material effect on the financial statements. As a result, there was no cumulative effect relating to adopting FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, "Fair Value Measurements." ("SFAS 157") defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. The FASB has provided a one-year deferral for the implementation for other nonfinancial assets and liabilities. The Company does not expect that the adoption of SFAS 157 will have a material impact on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows companies to elect to measure many financial assets and financial liabilities at fair value (the "fair value option"). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS 159 specifies that all subsequent changes in fair value for that instrument must be reported in earnings. We are currently evaluating whether we will apply the voluntary fair value option to any of our financial assets or financial liabilities.

In December 2007, the FASB issued SFAS No. 141-R, "Business Combinations" ("SFAS 141-R"). This statement replaces SFAS No. 141, but retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. This statement requires an acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. The statement requires acquisition costs and any restructuring costs associated with the business combination to be recognized separately from the fair value of the business combination. SFAS No. 141-R establishes requirements for recognizing and measuring goodwill acquired in the business combination or a gain from a bargain purchase as well as disclosure requirements designed to enable users to better interpret the results of the business combination. SFAS No. 141-R is effective for fiscal years beginning on or after December 15, 2008. The Company is currently evaluating the effect that the adoption of SFAS 141-R will have on its financial position and results of operations. Early adoption of this statement is not permitted.

E. Discontinued Operations

On November 15, 2004, the Company and Cerner entered into a Purchase Agreement pursuant to which the Company agreed to sell and Cerner agreed to acquire and assume substantially all of the assets and liabilities of the Company's Medical Division together with certain other assets, liabilities, properties and rights of the Company relating to its anesthesiology business. The sale of the Company's Medical Division allowed the Company to focus completely on its radiology business. Under the terms of the Purchase Agreement, (a) Cerner agreed to pay the Company \$100 million in cash, subject to a post-closing purchase-price adjustment based on the Company's net working capital as of the closing date, and (b) Cerner agreed to assume specified liabilities of the Medical Division and the anesthesiology business and certain obligations under assigned contracts and intellectual property.

On January 3, 2005, the Company completed the sale of its Medical Division to Cerner (the "Asset Sale"). The Asset Sale was completed in accordance with the terms and conditions of the Purchase Agreement. As consideration for the Asset Sale, the Company received cash proceeds of \$100 million, subject to a post-closing purchase price reduction of \$1.6 million.

In 2005, the Company recorded a net gain from the sale of approximately \$46.3 million which is net of approximately: (a) \$16.2 million of net assets transferred to Cerner, (b) \$1.6 million of post-closing purchase price

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

adjustments, (c) \$33.9 million of income taxes, (d) \$1.0 million relating to the modification of stock options granted to certain employees of the Medical Division and (e) \$1.0 million of additional fees and transaction costs related to the Asset sale. The \$33.9 million income tax provision includes the realization of \$28.2 million of deferred tax assets previously recorded and a current tax provision of \$5.7 million.

In 2006, the Company recorded a \$0.2 million gain from the sale of discontinued operations. This gain is the result of finalizing the allocation of the gain on the sale of the medical division to the various state taxing jurisdictions for 2005.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and EITF 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations," the December 31, 2005 consolidated financial statements exclude results of operations relating to the sale of the Medical Division. As noted above, the Company had formally committed to a plan to sell its Medical Division. The Company has (i) eliminated the Medical Division's financial results from its ongoing operations, (ii) determined that the Medical Division was a separate component of its aggregated business as historically its management reviewed separately the Medical Division's financial results and cash flows apart from its continuing operations, and (iii) determined that it will have no further continuing involvement in the operations of the Medical Division after the sale.

Condensed results of operations relating to the Medical Division for the year ended December 31, 2005 is as follows:

	Year Ended December 31, 2005
Revenues	\$ —
Gross profit	—
Operating loss	(57)
Loss from discontinued operations	\$(57)

G. Settlements, Severance and Impairment Charges

2007 Severance Costs

On October 1, 2007, the Company notified Peter A. McClennen, our President and Chief Operating Officer ("Mr McClennen") the Employment Agreement between Mr. McClennen and the Company, dated March 28, 2005 (the "Employment Agreement") would not be renewed. Pursuant to the terms of the Employment Agreement and in connection with the previously announced non-renewal by the Company of that agreement, the Company and Mr. McClennen have entered into a general release and separation agreement, dated as of October 25, 2007, (the "Separation Agreement"). Pursuant to the Separation Agreement, Mr. McClennen is entitled to receive one year's salary as a severance payment. As of December 31, 2007 the Company has accrued approximately \$0.3 million in general and administrative expenses related to this Separation Agreement.

During the year ended December 31, 2005, the Company implemented restructuring and consolidation actions to improve gross profit, reduce expenses and streamline operations. This included workforce reductions, consolidation of office facilities and the exit of the Medical Division. At December 31, 2005, substantially all of the obligations were paid.

In 2005, the Company recognized expense of \$5.7 million for settlements, severance and impairment charges. These charges consisted of the following:

- *Settlement of earn-out.* In connection with the termination of the earn-out consideration obligations relating to the acquisition of Amicas PACS, the Company recognized \$1.9 million of expense for amounts paid to certain Amicas PACS employees under the Amicas PACS bonus plan. Included in the \$1.9 million

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

was \$1.1 million for the acceleration of earn-out bonuses, pursuant to agreements with former Amicas PACS executives, whose employment was terminated by mutual agreement.

- *Settlement of litigation.* On October 14, 2005, the Company announced that David and Susan Jones (“Plaintiffs”) and InfoCure Corporation (now known as AMICAS, Inc.), Richard Perlman and James Price agreed to settle and to resolve and terminate, fully and finally, the issues between them in the lawsuit styled David and Susan Jones v. Infocure Corporation, et al. filed in 2001 concerning a 1999 transaction. As part of the settlement, the Company agreed to pay \$3.25 million to the Plaintiffs. The Company recorded a \$2.75 million charge related to the settlement of this litigation in 2005. The \$2.75 million charge is net of the reimbursement received of \$0.325 million from the co-defendants, who are two former executive officers of the Company, and \$0.5 million for previously accrued amounts.
- *Restructuring charges:*

The 2004 Plan. On October 15, 2004, the Company notified 57 of its employees that, in connection with the relocation of the Company’s corporate headquarters from Ridgefield, Connecticut to Boston, Massachusetts, their employment would be terminated under a plan of termination. The employees were terminated in the fourth quarter of 2004 and the first quarter of 2005. Pursuant to their termination agreements, the Company had agreed to pay their salary and provide certain benefits during their severance period. In 2005, the Company recorded a \$0.7 million charge for costs associated with employees terminated during the first quarter of 2005 and \$0.2 million non-cash stock compensation expense for certain modified stock awards.

The 2005 Plan. In May 2005, the Company notified 13 of its employees that their employment would be terminated in the second quarter of 2005 and, pursuant to their termination agreements, the Company agreed to pay their salary during their severance period. In 2005, the Company recorded a \$0.2 million charge for costs associated with their termination.

Office Closure. In June 2005, the Company vacated its former Ridgefield, Connecticut headquarters and determined it had no future use for this leased space. In 2005, the Company recorded a restructuring charge for the remaining contractual lease payments under the lease agreement of approximately \$0.1 million, which was paid in 2005.

Executive Termination Costs. On March 31, 2005, the Company entered into a separation agreement with two former executives of the Company, who were also former executives of Amicas PACS. Pursuant to their agreements, the Company has agreed to pay the executives two months of salary and other compensation obligations. In 2005, the Company recorded approximately \$0.1 million in costs related to the termination of employment of these executives. Additionally, under the separation agreements, in the first and second quarter of 2005, the Company accelerated the payment of certain earn-out bonuses in the amount of \$1.1 million. As of December 31, 2005, all amounts had been paid.

H. Marketable Securities

Current marketable securities include held-to-maturity investments with remaining maturities of less than one year as of the balance sheet date and available-for-sale investments that may be sold in the current period or used in current operations. Held-to-maturity marketable debt securities are reported at amortized cost. Investments in U.S. government and municipal obligations are classified as available-for-sale and are reported at fair value with unrealized gains and losses reported as other comprehensive income. There have been no material realized gains or losses to date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2007, marketable securities consisted of the following, in thousands:

	December 31, 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
State and municipal obligations	\$34,038	\$23	\$(31)	\$34,030
Federal agency obligations	<u>11,255</u>	<u>68</u>	<u>—</u>	<u>11,323</u>
Total	<u>\$45,293</u>	<u>\$91</u>	<u>\$(31)</u>	<u>\$45,353</u>

	December 31, 2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held-to-maturity:				
Commercial paper	\$ 7,928	\$16	\$(1)	\$ 7,943
Certificates of deposit	<u>13,790</u>	<u>17</u>	<u>(2)</u>	<u>13,805</u>
Total	<u>\$21,718</u>	<u>\$33</u>	<u>\$(3)</u>	<u>\$21,748</u>

Available for sale securities are recorded at fair value of \$45.3 million as of December 31, 2007, and held to maturity securities are recorded at amortized cost of \$21.7 million, resulting in total marketable securities of \$67.1 million.

As of December 31, 2006, marketable securities consisted of the following, in thousands:

	December 31, 2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
State and municipal obligations	\$29,950	\$—	\$—	\$29,950
Federal agency obligations	<u>5,801</u>	<u>5</u>	<u>(9)</u>	<u>5,797</u>
Total	<u>\$35,751</u>	<u>\$ 5</u>	<u>\$(9)</u>	<u>\$35,747</u>

	December 31, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held-to-maturity:				
Commercial paper	\$12,812	\$1	\$(1)	\$12,812
Certificates of deposit	<u>15,877</u>	<u>5</u>	<u>—</u>	<u>15,882</u>
Total	<u>\$28,689</u>	<u>\$6</u>	<u>\$(1)</u>	<u>\$28,694</u>

Available for sale securities are recorded at fair value of \$35.7 million as of December 31, 2006, and held to maturity securities are recorded at amortized cost of \$28.7 million, resulting in total marketable securities of \$64.4 million.

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The contractual maturities of our available-for-sale state and municipal obligation are as follows:

	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Due within one year	\$14,216	\$ 5,501
Due between one to five years	8,837	8,096
Due after 10 years	<u>22,300</u>	<u>22,150</u>
Total	<u>\$45,353</u>	<u>\$35,747</u>

I. Property and Equipment

Major classes of property and equipment consist of the following:

	<u>Depreciation/ Amortization Period</u> (Years)	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
		(In thousands)	
Equipment, primarily computers, and software	3-5	\$4,614	\$4,114
Equipment under capital lease obligations	3-5	2,627	2,627
Furniture and other	3-7	<u>793</u>	<u>783</u>
		8,034	7,524
Less accumulated depreciation and amortization		<u>6,848</u>	<u>6,155</u>
		<u>\$1,186</u>	<u>\$1,369</u>

Depreciation and amortization expense of these assets totaled \$0.7 million, \$0.8 million and \$1.3 million for 2007, 2006 and 2005, respectively.

J. Goodwill, Acquired/Developed Software and Other Intangible Assets

Major classes of intangible assets consist of the following:

		<u>December 31,</u>					
		<u>2007</u>			<u>2006</u>		
<u>Estimated Economic Life</u> (Years)	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>	
			(In thousands)				
Goodwill	<u>\$27,313</u>	<u>—</u>	<u>\$27,313</u>	<u>\$27,313</u>	<u>—</u>	<u>\$27,313</u>	
Acquired software	7	<u>\$16,000</u>	<u>\$(7,992)</u>	<u>\$ 8,008</u>	<u>\$13,700</u>	<u>\$(6,035)</u>	<u>\$ 7,665</u>
Trademarks	15	\$ 1,900	\$(517)	\$ 1,383	\$ 1,900	\$(391)	\$ 1,509
Non-compete agreements	5	<u>1,500</u>	<u>(1,225)</u>	<u>275</u>	<u>1,500</u>	<u>(925)</u>	<u>575</u>
		<u>\$ 3,400</u>	<u>\$(1,742)</u>	<u>\$ 1,658</u>	<u>\$ 3,400</u>	<u>\$(1,316)</u>	<u>\$ 2,084</u>

Amortization expense of the identifiable intangible assets totaled \$2.4 million for each of 2007, 2006 and 2005. Amortization of acquired software and software product development is recognized in the accompanying statements of operations as a cost of software licenses and system sales. Amortization of trademarks and non-compete agreements is included in depreciation and amortization expense.

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The future estimated amortization expense of the identifiable intangible assets is as follows (*in thousands*):

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>
Acquired software	\$2,231	\$2,286	\$2,123	\$328	\$328	\$ 712	\$8,008
Trademarks	127	127	127	126	127	749	1,383
Non-compete agreements	<u>275</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>275</u>
Total	<u>\$2,633</u>	<u>\$2,413</u>	<u>\$2,250</u>	<u>\$454</u>	<u>\$455</u>	<u>\$1,461</u>	<u>\$9,666</u>

In the first quarter of 2007, the Company acquired certain ownership rights to IMAGINeradiology's practice management software for \$2.3 million. Costs incurred to date to develop and modify this software to release as the Company's Vision Series Financials product will be amortized over its estimated life. The Company has not capitalized any internal costs as of December 31, 2007. The Company expects Vision Series Financials to be commercially available during the first half of 2008 at which point it will begin amortization of this capitalized cost.

K. Accrued Expenses

Accounts payable and accrued expenses consisted of the following (*in thousands*):

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Accounts payable	\$3,645	\$2,920
Accrued expenses	2,331	2,216
Income taxes payable	157	1,265
Sales tax payable	<u>961</u>	<u>754</u>
Total	<u>\$7,094</u>	<u>\$7,155</u>

L. Commitments and Contingencies

The Company leases office and research facilities and other equipment under various agreements that expire in various years through 2013.

The table below shows the future minimum lease payments due under non-cancellable leases as of December 31, 2007:

<u>Year</u>	<u>Operating (In thousands)</u>
2008	\$1,152
2009	848
2010	874
2011	866
Thereafter	<u>923</u>
Total	<u>\$4,663</u>

Certain of the office leases provide for contingent payments based on building operating expenses. Rental expenses for years 2007, 2006 and 2005 under all lease agreements totaled \$1.3 million, \$1.2 million, and \$1.2 million, respectively. On October 18, 2007, the Company renewed the lease to remain in its corporate headquarters in Boston, Massachusetts through January 2013. The base rent is \$65,446 per month and increases by \$1.00 per square foot annually over the lease term

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the Company's employee savings plans, the Company has committed, for the 2008 plan year, to contribute to the plans. The matching contribution for 2008 is estimated to be approximately \$0.6 million and will be made in cash.

Agreements with Cerner

On January 3, 2005, the Company entered into a transition services agreement with Cerner in connection with the sale of the Medical Division. Pursuant to the transition services agreement, in exchange for specified fees, the Company provided services to Cerner including accounting, tax, information technology, customer support and use of facilities, and Cerner provided services to the Company such as EDI services including patient billing and claims processing, and use of facilities. Under the agreement, certain of the Company-provided services terminated on April 30, 2006 and certain Cerner-provided services were expected to be provided through March 31, 2009. On September 27, 2007, effective May 1, 2007, the Company and Cerner mutually agreed to terminate the transition services agreement.

In January 2005, the Company completed the sale of substantially all of the assets and liabilities of its medical division, together with certain other assets, liabilities, properties and rights of the Company relating to its anesthesiology business (the "Medical Division") to Cerner and certain of Cerner's wholly-owned subsidiaries (the "Asset Sale"). The Asset Sale was completed in accordance with the terms and conditions of the Asset Purchase Agreement between the Company and Cerner dated as of November 15, 2004 (the "Purchase Agreement"). In connection with the Purchase Agreement with Cerner, the Company assigned its agreement with a third-party provider of EDI services for patient claims processing to Cerner. For the months after April 2005, the annual processing services fee ranged from \$0.2 million to \$0.3 million based on the Company's and Cerner's combined volume usage in the last month of the preceding year. The Company also assigned its patient statement agreement with National Data Corp. ("NDC") to Cerner. The agreement generally provided for the Company to send minimum quarterly volumes and to pay a minimum quarterly fee of \$0.6 million to Cerner through March 2006. Thereafter, the minimum quarterly volume commitment was to be reduced by 1.25% per quarter until April 2009. On September 27, 2007, in connection with the termination of the transition services agreement, the Company and Cerner mutually agreed the Company has no further obligation to pay any minimum quarterly fees, and Cerner has no obligation to provide services. As a result, the Company recognized approximately \$0.5 million of previously recorded unearned discount as a reduction of cost of maintenance and services during the year ended December 31, 2007.

In connection with the Asset Purchase Agreement, relating to the sale of the Medical Division, each party has indemnified the other with respect to specified liabilities and breaches of certain representations and warranties. Until January 2010, the Company cannot, except in certain limited situations, compete with the Medical Division, and the Company cannot induce a Medical Division customer or prospect to terminate its relationship with Cerner. In addition, until January 2010, the Company cannot directly or indirectly attempt to induce any former Medical Division employee to work for us, and the Company is prohibited from hiring certain specified former Medical Division employees.

As permitted under Delaware law, the Company has agreements under which it indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. Given the insurance coverage in effect, the Company believes the estimated fair value of these indemnification agreements is minimal. The Company has no liabilities recorded for these agreements as of December 31, 2007.

The Company generally includes intellectual property indemnification provisions in its software license agreements. Pursuant to these provisions, the Company holds harmless and agrees to defend the indemnified party,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

generally its business partners and customers, in connection with certain patent, copyright, trademark and trade secret infringement claims by third parties with respect to the Company's products. The term of the indemnification provisions varies and may be perpetual. In the event an infringement claim against the Company or an indemnified party is made, generally the Company, in its sole discretion, agrees to do one of the following: (i) procure for the indemnified party the right to continue use of the software, (ii) provide a modification to the software so that its use becomes noninfringing; (iii) replace the software with software which is substantially similar in functionality and performance; or (iv) refund all or the residual value of the software license fees paid by the indemnified party for the infringing software. The Company believes the estimated fair value of these intellectual property indemnification agreements is minimal. The Company has no liabilities recorded for these agreements as of December 31, 2007.

Legal Proceedings

From time to time, in the normal course of business, the Company is involved with disputes and there are various claims made against the Company. There are no material proceedings to which the Company is a party, and management is unaware of any material contemplated actions against the Company.

On April 19, 2001, a lawsuit styled David and Susan Jones v. InfoCure Corporation (now known as AMICAS, Inc.), et al., concerning a 1999 business combination transaction was filed in Boone County Superior Court in Indiana and the case was subsequently transferred to the Northern District Court of Georgia. The complaint alleged state securities law violations, breach of contract, and fraud claims against the defendants. The complaint did not specify the amount of damages sought by plaintiffs, but sought rescission of a transaction that the plaintiffs valued at \$5 million, as well as punitive damages and reimbursement for the plaintiffs' attorneys' fees and associated costs and expenses of the lawsuit. In October 2001, the plaintiffs' request for a preliminary injunction to preserve their remedy of rescission was denied and part of their complaint was dismissed. The plaintiffs' subsequent appeal of this decision was denied. Thereafter, plaintiffs retained new counsel and served an amended complaint that added additional former officers and directors as defendants, dropped the claim for rescission, and asserted new state securities law violations. After disqualification of plaintiffs' second counsel in May 2003, plaintiffs retained new counsel and, in July 2003, served a second amended complaint upon us which added, among other things, a claim for Georgia Racketeer Influenced and Corrupt Organizations ("RICO") violations. In August 2003, the Company filed with the Court a partial motion to dismiss the second amended complaint which motion was granted in part and denied in part on January 9, 2004. On February 6, 2004, the Company served an answer to the second amended complaint. On December 20, 2004, the defendants filed a motion for summary judgment and the plaintiffs filed a motion for partial summary judgment. In a September 2005 decision, the Court denied plaintiffs' motion for summary judgment, and the defendants' motion for summary judgment was granted in part and denied in part. The matter was placed on the Court's October 17, 2005 trial calendar. On October 14, 2005, the Company announced that David and Susan Jones ("Plaintiffs") and AMICAS, Inc, Richard Perlman and James Price agreed to settle and to resolve and terminate, fully and finally, the issues between them in the lawsuit styled David and Susan Jones v. InfoCure Corporation, et al. As part of the settlement, the Company agreed to pay \$3.25 million to the Plaintiffs. The Company recorded a \$2.75 million charge related to the settlement of this litigation in 2005. The \$2.75 million charge is net of the reimbursement received of \$325,000 from the co-defendants, who are two of the Company's former executive officers, and \$0.5 million for previously accrued amounts.

M. Stockholders' Equity

Stockholder Rights Plan

In December 2002, the Company adopted a stockholder rights plan (the "Rights Plan") and declared a dividend of one right (the "Right") on each share of the Company's common stock. The dividend was paid on December 27, 2002, to stockholders of record on December 27, 2002. The Rights Plan was approved and recommended to the Company's board of directors (the "Board") by a special committee of the Board consisting of three outside members of the Board. The Rights Plan is designed to enable all Company stockholders to realize the full value of

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

their investment and to provide for fair and equal treatment of all Company stockholders if there is an unsolicited attempt to acquire control of the Company. The adoption of the Rights Plan is intended as a means to guard against abusive takeover tactics and was not adopted in response to any specific effort to acquire control of the Company.

Initially, the Rights will trade with the common stock of the Company and will not be exercisable. The Rights will separate from the common stock and become exercisable upon the occurrence of events typical of stockholder rights plans. In general, such separation will occur when any person or group, without the Board's approval, acquires or makes an offer to acquire 15% or more of the Company's common stock. Thereafter, separate right certificates will be distributed and each Right will entitle its holder to purchase one one-thousandth of a share of the Company's Series B Junior Preferred Stock (the "Preferred Stock") for an exercise price of \$20.00 (the "Exercise Price"). Each one one-thousandth of a share of Preferred Stock has economic and voting terms equivalent to those of one share of the Company's common stock.

Subject to the specific terms of the Rights Plan, in the event that any person or group, without the Board's approval, actually acquires 15% or more of the Company's common stock, then each holder of a Right (other than such person or group) shall thereafter have the right to receive upon exercise of such Right and payment of the Exercise Price, shares of Preferred Stock having a value equal to twice the Exercise Price. Also, if the Company is involved in a merger or sells more than 50% of its assets or earning power, each Right, unless previously redeemed by the Board, will entitle its holder (other than the acquiring person or group) to purchase shares of common stock of the acquiring company having a market value of twice the Exercise Price.

The Rights Plan is not intended to prevent a takeover of the Company at a full and fair price. However, the Rights Plan may cause substantial dilution to a person or group that, without prior Board approval, acquires 15% or more of the Company's common stock, or unless the Rights are first redeemed by the Board. The Rights may be redeemed by the Board for \$0.005 per Right and will otherwise expire on December 5, 2012.

The Rights Plan contains an independent directors review provision whereby a committee of independent members of the Board will review the Rights Plan at least every three years and, if a majority of the members of the independent committee deems it appropriate, may recommend to the Board the continued maintenance, modification or termination of the Rights Plan.

The Rights Plan does not weaken the Company's financial strength or interfere with its business plans. The issuance of the Rights has no dilutive effect, will not affect reported earnings per share, is not taxable to the Company or its stockholders and will not change the way the Company's shares are traded.

Employee Savings Plans

The Company maintains an employee savings plan that qualifies as a cash or deferred salary arrangement under Section 401(k) of the Internal Revenue Code. The Company may make matching and/or profit-sharing contributions to the plan at its sole discretion. In 2007, 2006 and 2005, the Company authorized matching contributions of \$0.6 million, \$0.5 million and \$0.5 million, respectively, to the plan, representing two-thirds of each participant's contribution, not to exceed 4% of pre-tax compensation. The matching contribution for 2007 and 2006 was paid in cash. The matching contribution for the 2005 plan year was made quarterly for the first, second and third quarters, 75% in cash and 25% in shares of the Company's common stock. The fourth quarter contribution was made all in cash. Employees become fully vested with respect to Company contributions after three years of service. Participating employees may now defer up to 50% of their pre-tax compensation but not more than \$15,500 per calendar year.

Employee Stock Purchase Plan

The Company's 2007 Employee Stock Purchase Plan (the "ESPP"), as approved by the Company's shareholders in June 2007, permits eligible employees to purchase the Company's common stock at a discounted price through periodic payroll deductions of up to 15% of their cash compensation. Generally, each offering period will have a maximum duration of six months and shares of common stock will be purchased for each participant at the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

conclusion of each offering period. The price at which the common stock is purchased under the ESPP is equal to 85% of the lower of (i) the closing price of the common stock on the first business day of the offering period, or (ii) the closing price on the last business day of the offering period. In 2006 and 2005, a total of 115,681 and 142,616 shares, respectively, were issued under the Company's employee stock purchase plan. In August 2007, the Employee Stock Purchase Plan resumed, and the Company issued approximately 75,000 shares at the conclusion of the offering period in January 2008.

Stock Option Plans

The Company has stock option plans that provide for the grant of incentive and nonqualified options to purchase the Company's common stock to selected officers, other key employees, directors and consultants.

In June 2006, the Company's stockholders approved the 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan replaces the Company's 1996 Stock Option Plan (the "1996 Plan") and the Company's 2000 Broad Based Plan (the "2000 Plan"). Options outstanding under the 1996 Plan and the 2000 Plan continue to have force and effect in accordance with the provisions of the instruments evidencing such options. However, no further options will be granted under the 1996 Plan or the 2000 Plan, and no shares remain reserved for issuance under those plans.

The remaining plans available to grant options are the 2006 Stock Incentive Plan and the Directors Stock Option Plan.

The 2006 Stock Incentive Plan (the "2006 Plan") has 8.0 million shares of common stock of the Company reserved for incentive stock option grants, nonqualified option grants, stock appreciation right grants, restricted stock, restricted stock units or stock grants to directors and employees. The option price for each share of stock subject to an option or stock appreciation right may not be less than the fair market value of a share of stock on the date the option or right is granted. Options or rights granted under this plan generally vest over a three- to six-year period and expire ten years from the date of grant. In June 2007, 750,000 shares of common stock were approved for issuance to the Employee Stock Purchase Plan and allocated from the 2006 Stock Incentive Plan at the annual meeting of the Company's stockholders. At December 31, 2007, there were 5.8 million shares available for grant under the 2006 Plan and options to purchase 1.4 million shares outstanding.

The 2000 Broad Based Stock Plan (the "2000 Plan") has been terminated and there are no shares available for issuance. In accordance with the provisions of the 2000 Plan, the option price for each share of stock subject to an option or stock appreciation right may not be less than the fair market value of a share of stock on the date the option or right is granted. Options or rights that have been granted under the 2000 Plan generally vest over a three- to six-year period and will expire ten years from the date of grant. At December 31, 2007, there were approximately 4.0 million options to purchase shares outstanding under the 2000 Plan.

The 1996 Stock Option Plan (the "1996 Plan"), has been terminated and there are no shares available for issuance. Grants under this plan have been classified as incentive stock options ("ISOs") within the dollar limitations prescribed under Section 422(d) of the Internal Revenue Code. The exercise price of ISOs was not less than the fair market value of the common stock as of the option grant date (110% of such value for 10% stockholders). Nonqualified stock options could be granted to directors and consultants. Options generally vest ratably over a three to four-year period and will expire ten years from the date of grant. At December 31, 2007, there were 1.4 million options to purchase shares outstanding under the 1996 Plan.

Under the Length-of-Service Nonqualified Stock Option Plan (the "LOSSO Plan"), 2.1 million shares of common stock of the Company have been reserved for issuance to employees of the Company. Employees were granted nonqualified stock options based on years of service with the Company. The exercise price of options issued pursuant to this plan was not less than the fair market value of the common stock as of the grant date. Options granted under the LOSSO Plan vest four years and expire ten years from the date of grant. Effective July 1, 2002, the Company discontinued granting options under the LOSSO Plan. At December 31, 2007, there were approximately 158,000 options to purchase shares outstanding under the LOSSO Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Under the Directors Stock Option Plan (the “Director Plan”), 0.4 million shares of common stock of the Company had been reserved for issuance as nonqualified stock options to non-employee directors of the Company until the Directors Stock Plan terminated on September 9, 2007. Upon appointment to the board of directors, a director receives an option grant of 10,000 shares and an additional option grant of 2,500 shares on each anniversary date. A director may also receive additional option grants from time to time. One half of the options granted pursuant to this plan vest after one year of service following the grant date and the other half vests after two years of service following the grant date. At December 31, 2007, there were no shares available for grant under the Director Plan and approximately 163,000 options to purchase shares outstanding.

Share-Based Payment

The Company adopted SFAS No. 123 (Revised 2004), “Share — Based Payment” (“SFAS 123R”), effective January 1, 2006. SFAS 123R requires the recognition of the fair value of stock-based compensation as an expense in the calculation of net income. The Company recognizes stock-based compensation expense ratably over the vesting period of the individual equity instruments. All stock awards outstanding on December 31, 2007 have been accounted for as equity instruments based on the provisions of SFAS 123R. Prior to January 1, 2006 the Company followed the Accounting Principles Board (“APB”) Opinion 25, “Accounting for Stock Issued to Employees”, and related interpretations in accounting for stock-based compensation.

The Company elected the modified prospective transition method for adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all stock-based awards granted or other awards granted that are subsequently reclassified into equity. The unrecognized expense of awards not yet vested as of December 31, 2005, the date on which the Company adopted SFAS 123R adoption by the Company, is now being recognized as expense in the calculation of net income using the same valuation method (Black-Scholes) and assumptions disclosed prior to the adoption of SFAS 123R.

Under the provisions of SFAS 123R the Company has recorded the following amounts of stock-based compensation expense in its condensed consolidated statement of operations for the fiscal years ended December 31, 2007 and December 31, 2006:

	<u>2007</u>	<u>2006</u>
	(In thousands)	(In thousands)
Cost of revenues: maintenance and service	\$ 106	\$ 54
Research and development	266	196
Selling, general and administrative	<u>1,506</u>	<u>1,513</u>
Total share-based compensation expense	<u>\$1,878</u>	<u>\$1,763</u>

The Company utilized the Black-Scholes valuation model for estimating the fair value of stock-based compensation after the adoption of SFAS 123R. For the years ended December 31, 2007 and December 31, 2006 the Company used the following assumptions:

	<u>Year Ended December 31, 2007</u>		<u>Year Ended December 31, 2006</u>	
	<u>Stock Option Plan</u>	<u>Stock Purchase Plan</u>	<u>Stock Option Plan</u>	<u>Stock Purchase Plan</u>
Average risk-free interest rate	4.69%	4.47%	4.82%	4.47%
Expected dividend yield	—	—	—	—
Expected stock price volatility	44.2%-45.1%	41.7%	41.7%	41.7%
Weighted-average expected life (in years)	5.4	0.5	4.9	0.5
Weighted-average fair value	\$1.41	\$1.06	\$1.56	\$1.42

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company's common stock over a four year period which reflects the Company's expectations of future volatility. The risk-free interest rate is derived from U.S. Treasury rates during the period, which approximate the rate in effect at the time of the grant. The expected life calculation is based on the observed and expected time to post-vesting exercise and forfeitures of options by the Company's employees.

Based on historical experience of option pre-vesting cancellations, the Company has assumed an annualized forfeiture rate of 3.9% and 2.2% for its options at December 31, 2007 and December 31, 2006, respectively. Under the true-up provisions of SFAS 123R, the Company will record additional expense if the actual forfeiture rate is lower than the Company estimated, and will record a recovery of prior expense if the actual forfeiture is higher than the Company estimated.

The unamortized fair value of stock options as of December 31, 2007 was \$2.6 million which is expected to be recognized over the weighted average remaining period of 2.1 years.

A summary of stock option activity and related information for the years ended December 31 is as follows (*shares in thousands*):

	<u>Shares Available for Grant</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value(1)</u>
Outstanding at December 31, 2005	14,930	<u>6,672</u>	<u>3.23</u>	<u>6.10</u>	
Granted		937	3.61		
Exercised		(563)	2.24		<u>1,195</u>
Forfeited		<u>(365)</u>	<u>4.13</u>		
Outstanding at December 31, 2006	8,519	<u>6,681</u>	<u>\$3.32</u>	<u>5.97</u>	<u>\$2,427</u>
Granted		1,160	2.99		
Exercised		(204)	2.03		<u>298</u>
Forfeited		<u>(590)</u>	<u>3.69</u>		
Outstanding at December 31, 2007	6,058	<u>7,047</u>	<u>\$3.28</u>	<u>5.03</u>	<u>\$1,519</u>
Options exercisable at December 31, 2005		4,148	\$2.95		
Options exercisable at December 31, 2006		4,368	\$3.16	4.64	\$2,362
Options exercisable at December 31, 2007		5,078	\$3.28	3.82	\$1,517

(1) The aggregate intrinsic value on this table was calculated based on the positive difference between the closing market value of the Company's common stock on December 31, 2007 and the exercise price of the underlying options.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Warrants

The following table summarizes information about the Company's outstanding and exercisable warrants at December 31, 2007 (*shares in thousands*):

<u>Range of Exercise Prices</u>	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>
\$0.75–17.84	350	0.1	\$4.58

There were no warrants issued in 2007, 2006 or 2005.

Restricted Stock

As of December 31, 2007, an aggregate of 55,665 shares of restricted stock had been granted to the Company's non-employee directors, which vest on the earlier of one year from the date of grant and the date the director completes a full term as a director. The fair value of the restricted stock awards was based on the closing market price of the Company's common stock on the date of award and is being amortized on a straight line basis over the service period. Stock-based compensation expense recognized for the twelve months ended December 31, 2006 for restricted stock is based on the stock that is expected to vest. The cost is expected to be recognized over an estimated weighted-average amortization period of 12 months.

During the year ended December 31, 2007, the Company expensed \$71,000 which is included in general and administrative expense in the accompanying consolidated statement of operations related to unvested restricted stock. The intrinsic value of the restricted stock outstanding at December 31, 2007 was \$83,000.

A summary of the Company's restricted stock activity and related information for the fiscal years ended December 31, 2006 and December 31, 2007 is as follows:

	<u>Shares of Restricted Stock</u>	<u>Weighted Average Grant Date Fair Value</u>
Restricted at December 31, 2005	—	\$ —
Granted	29,680	2.83
Unrestricted	<u>—</u>	<u>—</u>
Restricted at December 31, 2006	<u>29,680</u>	<u>2.83</u>
Granted	25,985	3.23
Unrestricted	<u>(29,680)</u>	<u>2.83</u>
Restricted at December 31, 2007	<u>25,985</u>	<u>\$3.23</u>

N. Income Taxes

For 2007, the Company recorded an income tax provision of \$209,000 from continuing operations. For 2006, the Company recorded an income tax provision from continuing operations of \$84,000 and a benefit of \$230,000 related to discontinued operations. For 2005, the Company recorded an income tax benefit from continuing operations of \$1.2 million and an income tax provision of \$33.9 million related to discontinued operations. For 2006 and 2005 the Company recorded \$0.4 million and \$0.6 million, respectively, of income tax benefit to additional paid-in capital in connection with net operating loss carry forwards attributed to the exercise of employee stock options.

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of the income tax (benefit) provision are as follows:

	December 31, 2007	December 31, 2006	December 31, 2005
Income tax (benefit) provision from continuing operations			
Current federal	\$ 15	\$ —	\$ (245)
Current state	<u>194</u>	<u>84</u>	<u>(111)</u>
Total current (benefit) provision	209	84	(356)
Deferred federal	489	1,112	(578)
Deferred state	<u>(249)</u>	<u>1,175</u>	<u>(263)</u>
Valuation allowance	<u>(240)</u>	<u>(2,287)</u>	<u>—</u>
Total deferred (benefit) provision	<u>—</u>	<u>—</u>	<u>(841)</u>
Total income tax (benefit) provision from continuing operations	<u><u>\$ 209</u></u>	<u><u>\$ 84</u></u>	<u><u>\$(1,197)</u></u>

Income tax expense attributable to income (loss) from continuing operations differs from the computed expense by applying the U.S. federal income tax rate of 35% to pre-tax income(loss) from continuing operations as a result of the following:

	December 31,		
	2007	2006	2005
Expense computed at statutory rates	\$(228)	\$(410)	\$(1,121)
State taxes, net of federal benefit	(36)	818	(159)
Permanent differences	271	164	62
Change in valuation allowances and other	<u>202</u>	<u>(488)</u>	<u>21</u>
Total income tax expense (benefit)	<u><u>209</u></u>	<u><u>\$ 84</u></u>	<u><u>\$(1,197)</u></u>

AMICAS, INC. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of deferred income tax assets and liabilities are as follows:

	December 31,	
	2007	2006
	(In thousands)	
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 92	\$ 419
Goodwill amortization	910	1,366
Accrued expenses	562	515
Unearned discounts re: outsourced printing services	—	293
Net operating loss and credit carry forwards	25,513	25,886
Change in Amicas PACS tax accounting method	—	—
Share-based payment	1,076	582
Difference between book and tax bases of property and equipment	549	835
	28,704	29,896
Less valuation allowance	25,761	26,001
	2,943	3,895
Deferred income tax liabilities:		
Acquired/developed software	2,281	3,062
Other intangible assets	662	833
	2,943	3,895
Net deferred income tax asset	\$ —	\$ —

Management has assessed the recovery of the Company's deferred tax assets of \$28.7 million and as a result of this assessment, recorded a valuation allowance of \$25.8 million as of December 31, 2007. The valuation allowance, along with deferred tax liabilities of \$2.9 million, reduces the net deferred tax asset to zero. Management believes it is more likely than not that all of the deferred tax asset will not be realized. A full valuation allowance has been recorded against the net deferred tax asset since management believes it is more likely that not that the deferred tax asset will not be realized.

As of December 31, 2007, the Company has net operating loss carry forwards of approximately \$60.8 million and tax credit carry forwards of \$3.3 million, which expire at various dates through 2027. The net operating loss carry forwards of \$60.8 million includes approximately \$1.5 million of deductions related to the exercise of stock options subsequent to the adoption of FAS 123(R). This amount represents an excess tax benefit as defined under 123(R) and has not been included in the gross deferred tax asset reflected for net operating losses.

Included in the \$60.8 million of net operating loss carry forwards is approximately \$18.1 million of operating losses related to the AMICAS acquisition that are subject to certain limitations. Upon adoption of SFAS No. 141-R, *Business Combinations*, the reduction of a valuation allowance that pertains to the acquired companies tax attributes is generally recorded to reduce income tax expense. Also included in the \$60.8 million is \$13.0 million of net operating loss carry forwards related to the Datamedic acquisition and is subject to a limitation of \$1.3 million per year. The benefit related to the utilization of these operating losses will be credited to the income statement. There are approximately \$28.4 million of net operating loss related to stock option benefits that are unlimited and will be credited to equity when utilized and the remaining amount of \$1.3 million will be credited to the income statement upon utilization.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 2006, the FASB issued FIN 48. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. FIN 48 prescribes a recognition threshold of more-likely — than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective January 1, 2007, the Company adopted the provisions of FIN 48 and there has been no material effect on the financial statements. As a result, there was no cumulative effect related to adopting FIN 48. Upon adoption of FIN 48, unrecognized tax benefits were classified as a long-term liability.

As of January 1, 2007, the Company provided a liability of \$1,112,500 of unrecognized tax benefits related to various state income tax matters. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>Amount</u>
Unrecognized tax benefits at January 1, 2007	\$1,112,500
Additions for tax positions related to the current year	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Unrecognized tax benefits at December 31, 2007	\$1,112,500

If recognized, the entire unrecognized tax benefit would impact the Company's effective tax rate. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months. The tax years 19997 through 2006 remain open to examination by major taxing jurisdictions to which the Company is subject as carryforward attributes generated in years past may still be adjusted upon examination by the Internal Revenue Service ("IRS") or state tax authorities if they have or will be used in a future period. As of January 1, 2007, the Company had accrued \$67,500 of interest and penalties related to uncertain tax positions. As of December 31, 2007, the total amount of accrued interest and penalties is \$162,500. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

O. Quarterly Results of Operations (Unaudited)

	<u>Three Months Ended</u>				<u>Year Ended December 31</u>
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>	
	(In thousands, except per share data)				
Year Ended December 31, 2007					
Total revenues	\$12,433	\$12,502	\$13,301	\$11,652	\$49,888
Gross profit	6,922	6,638	7,181	6,192	26,933
Net income (loss)	146	(480)	374	(902)	(862)
Weighted average number of shares outstanding					
Basic	44,549	44,568	44,762	44,746	44,657
Diluted	45,360	45,503	45,663	44,746	44,657
Earnings (loss) per share — basic	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Earnings (loss) per share — diluted	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Year Ended December 31, 2006					
Total revenues	\$13,971	\$12,220	\$11,802	\$11,444	\$49,437
Gross profit	7,579	7,129	5,960	6,122	26,790
Loss from continuing operations(a)	(254)	319	(173)	(1,146)	(1,254)
Income from discontinued operations	(248)	—	478	—	230
Net income (loss)(a)	(502)	319	305	(1,146)	(1,024)
Weighted average number of shares outstanding					
Basic	48,611	45,275	45,114	45,135	46,499
Diluted	48,611	46,538	45,114	45,135	46,499
Earnings (loss) per share — basic					
Continuing operations	\$ (0.01)	\$ 0.01	\$ 0.00	\$ (0.03)	\$ (0.03)
Discontinued operations	<u>(0.01)</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>
	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>
Earnings (loss) per share — diluted					
Continuing operations	\$ (0.01)	\$ 0.01	\$ 0.00	\$ (0.03)	\$ (0.03)
Discontinued operations	<u>(0.01)</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>
	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>

P. Supplemental Disclosure of Cash Flow and Noncash Activities

Cash payments for interest amounted to \$0.1 million for 2005. The Company made cash payments for income taxes of \$0.9 million, \$0.8 million, and \$2.5 million in 2007, 2006 and 2005, respectively.

In 2007 and 2006, the Company authorized contributions of \$0.6 million and \$0.5 million in cash to the employee 401(k) savings plan, respectively. In 2005, the Company authorized contributions of \$0.2 million, which were made in shares of the Company's common stock plus \$0.3 million in cash, to the employee 401(k) savings plan.

On December 9, 2004, the November 25, 2003 Amicas PACS merger agreement was amended. The amendment terminated the earn-out consideration obligations set forth in the merger agreement and provided that the Company would pay to former Amicas PACS stockholders a total of up to \$10.0 million to be paid in the following manner: \$4.3 million was paid three business days after distribution of the escrow fund pursuant to the escrow notice dated December 9, 2004 and \$5.7 million was paid in 2005.

CORPORATE OVERVIEW



EXECUTIVE OFFICERS

Stephen N. Kahane, MD, MS
Chief Executive Officer, President, and Chairman

Kevin C. Burns
Sr. Vice President and Chief Financial Officer



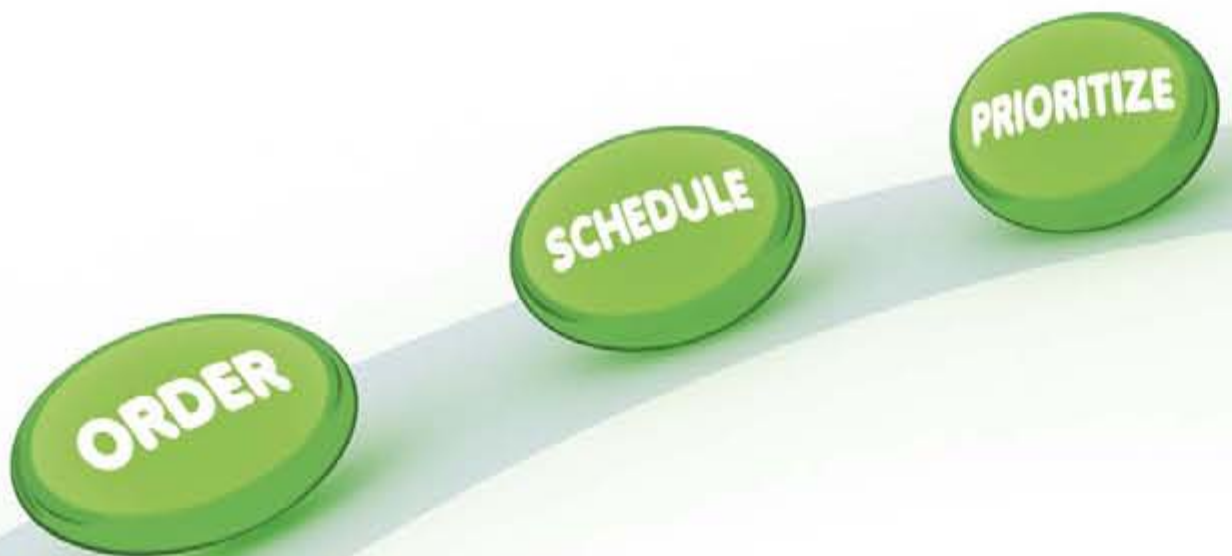
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