

Edgar Filing: PER SE TECHNOLOGIES INC - Form 10-Q/A

PER SE TECHNOLOGIES INC  
Form 10-Q/A  
March 07, 2005

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

-----  
FORM 10-Q/A  
(AMENDMENT NO. 1)

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

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: 000-19480

PER-SE TECHNOLOGIES, INC.  
(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

58-1651222  
(I.R.S. Employer  
Identification No.)

1145 SANCTUARY PARKWAY, SUITE 200  
ALPHARETTA, GEORGIA  
(Address of principal executive offices)

30004  
(Zip code)

(770) 237-4300  
(Registrant's telephone number, including area code)

NOT APPLICABLE  
(Former name, former address and former fiscal year, if changed since last  
report)

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 whether the Registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

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

TITLE OF CLASS	SHARES OUTSTANDING AT MAY 25, 2004
Common Stock \$0.01 Par Value	31,620,591 shares
Non-voting Common Stock \$0.01 Par Value	0 Shares

### EXPLANATORY NOTE

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, Per-Se Technologies, Inc. hereby amends its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 in response to certain comments of the staff of the Securities and Exchange Commission in connection with its review of our Registration Statement on Form S-1 (File No. 333-119012) filed on September 15, 2004 and amended on November 23, 2004, January 7, 2005, February 10, 2005 and March 7, 2005. The revisions contained in this Form 10-Q/A do not include the restatement of any financial information previously reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

For convenience and ease of reference, we are filing the amended Quarterly Report in its entirety. Unless otherwise stated, all information contained in this amended Quarterly Report is as of May 27, 2004, the filing date of our original Quarterly Report on Form 10-Q for the year ended March 31, 2004. For more current information, readers should refer to the reports and other documents we have filed with or furnished to the Commission subsequent to May 27, 2004.

PER-SE TECHNOLOGIES, INC.

FORM 10-Q/A  
FOR THE FISCAL QUARTER ENDED MARCH 31, 2004

		PAGE
PART I: FINANCIAL INFORMATION		
Item 1.	Financial Statements	2
	Consolidated Balance Sheets as of March 31, 2004 (Unaudited) and December 31, 2003.....	3
	Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003 (Unaudited).....	4
	Consolidated Statements of Cash Flows for the three months ended March 31, 2004 and 2003 (Unaudited).....	5
Item 2.	Notes to Consolidated Financial Statements.....	14
Item 3.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	25

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	Quantitative and Qualitative Disclosures About Market Risk.....	26
Item 4.	Controls and Procedures.....	28
	PART II: OTHER INFORMATION	
Item 1.	Legal Proceedings.....	28
Item 6.	Exhibits and Reports on Form 8-K.....	28

1

## PART I: FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2004	DECEMBER 31, 2003
	-----	-----
	(UNAUDITED)	
	(IN THOUSANDS, EXCEPT PAR VALUE DATA)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents.....	\$ 20,502	\$ 25,271
Restricted cash.....	77	66
	-----	-----
Total cash and cash equivalents.....	20,579	25,337
Accounts receivable, billed (less allowances of \$4,538 and \$4,267 as of March 31, 2004 and December 31, 2003, respectively).....	47,772	46,335
Accounts receivable, unbilled (less allowances of \$528 as of March 31, 2004 and December 31, 2003).....	1,760	1,613
Lloyd's receivable.....	18,277	17,405
Other.....	6,852	6,183
	-----	-----
Total current assets.....	95,240	96,873
Property and equipment, net of accumulated depreciation.....	15,937	16,434
Goodwill, net of accumulated amortization.....	32,549	32,549
Other intangible assets, net of accumulated amortization....	19,129	19,787
Other.....	5,651	5,881
Assets of discontinued operations, net.....	--	129
	-----	-----
Total assets.....	\$ 168,506	\$ 171,653
	=====	=====
<b>CURRENT LIABILITIES:</b>		
Accounts payable.....	\$ 6,157	\$ 6,587
Accrued compensation.....	16,386	18,102
Accrued expenses.....	19,064	19,037
Current portion of long-term debt.....	12,500	12,500
	-----	-----
	54,107	56,226
Deferred revenue.....	20,238	20,334
	-----	-----

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Total current liabilities.....	74,345	76,560
Long-term debt.....	106,250	109,375
Other obligations.....	1,995	2,908
Liabilities of discontinued operations.....	--	422
	-----	-----
Total liabilities.....	182,590	189,265
	-----	-----
STOCKHOLDERS' DEFICIT:		
Preferred stock, no par value, 20,000 authorized; none issued.....	--	--
Common stock, voting, \$0.01 par value, 200,000 authorized, 31,621 and 31,322 issued and outstanding as of March 31, 2004, and December 31, 2003, respectively.....	316	313
Common stock, non-voting, \$0.01 par value, 600 authorized; none issued.....	--	--
Paid-in capital.....	788,823	786,297
Warrants.....	1,495	1,495
Accumulated deficit.....	(804,259)	(805,286)
Treasury stock at cost, 131 and 122 as of March 31, 2004 and December 31, 2003, respectively.....	(1,376)	(1,303)
Deferred stock unit plan obligation.....	1,376	1,303
Accumulated other comprehensive loss.....	(459)	(431)
	-----	-----
Total stockholders' deficit.....	(14,084)	(17,612)
	-----	-----
Total liabilities and stockholders' deficit.....	\$ 168,506	\$ 171,653
	=====	=====

See notes to consolidated financial statements.

2

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED	
	MARCH 31,	
	2004	2003
	-----	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
	-----	-----
Revenue.....	\$84,601	\$81,998
Salaries and wages.....	49,684	47,613
Other operating expenses.....	23,201	22,094
Depreciation.....	2,101	2,498
Amortization.....	1,793	1,793
Other expenses.....	3,961	--
	-----	-----
Operating income.....	3,861	8,000
Interest expense.....	2,074	4,482
Interest income.....	(52)	(108)
Loss on extinguishment of debt.....	--	221
	-----	-----
Income before income taxes.....	1,839	3,405
Income tax expense.....	232	284

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Income from continuing operations.....	1,607	3,121
Discontinued operations (see Note 7)		
Loss from discontinued operations, net of tax -- Patient1.....	(18)	(509)
Loss on sale of Patient1, net of tax.....	(66)	--
Loss from discontinued operations, net of tax -- Business1.....	(303)	(764)
Loss on sale of Business1, net of tax.....	(130)	--
Loss from discontinued operations, net of tax -- Other.....	(63)	(11)
	(580)	(1,284)
Net income.....	\$ 1,027	\$ 1,837
Net income per common share -- basic:		
Income from continuing operations.....	\$ 0.05	\$ 0.10
Loss from discontinued operations, net of tax -- Patient1.....	--	(0.02)
Loss on sale of Patient1, net of tax.....	--	--
Loss from discontinued operations, net of tax -- Business1.....	(0.01)	(0.02)
Loss on sale of Business1, net of tax.....	(0.01)	--
Loss from discontinued operations, net of tax -- Other.....	--	--
Net income per common share -- basic.....	\$ 0.03	\$ 0.06
Weighted average shares used in computing basic earnings per share.....		
	31,531	30,172
Net income per common share -- diluted:		
Income from continuing operations.....	\$ 0.05	\$ 0.10
Loss from discontinued operations, net of tax -- Patient1.....	--	(0.02)
Loss on sale of Patient1, net of tax.....	--	--
Loss from discontinued operations, net of tax -- Business1.....	(0.01)	(0.02)
Loss on sale of Business1, net of tax.....	(0.01)	--
Loss from discontinued operations, net of tax -- Other.....	--	--
Net income per common share -- diluted.....	\$ 0.03	\$ 0.06
Weighted average shares used in computing diluted earnings per share.....		
	34,200	31,037

See notes to consolidated financial statements.

3

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED

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	MARCH 31,	
	----- 2004	2003 -----
	(IN THOUSANDS)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income.....	\$ 1,027	\$ 1,837
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization.....	3,894	4,291
Loss from discontinued operations.....	384	1,284
Loss on sale of discontinued operations and other.....	196	--
Amortization of deferred financing costs.....	340	321
Loss on extinguishment of debt.....	--	221
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Restricted cash.....	--	(138)
Accounts receivable, billed.....	(1,437)	(1,404)
Accounts receivable, unbilled.....	(147)	(38)
Accounts payable.....	(447)	1,768
Accrued compensation.....	(1,728)	(3,786)
Accrued expenses.....	(88)	(6,337)
Deferred revenue.....	(96)	(1,897)
Other, net.....	(2,594)	(1,370)
	-----	-----
Net cash used for continuing operations.....	(696)	(5,248)
Net cash used for discontinued operations.....	(483)	(3,013)
	-----	-----
Net cash used for operating activities.....	(1,179)	(8,261)
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment.....	(1,629)	(1,124)
Software development costs.....	(1,135)	(642)
Transaction costs on sale of discontinued operations.....	(196)	--
Proceeds from sale of property and equipment.....	3	1
Other.....	(20)	(19)
	-----	-----
Net cash used for continuing operations.....	(2,977)	(1,784)
Net cash used for discontinued operations.....	--	(790)
	-----	-----
Net cash used for investing activities.....	(2,977)	(2,574)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the exercise of stock options.....	2,529	70
Payments of debt.....	(3,125)	(15,014)
Other.....	(17)	72
	-----	-----
Net cash used for financing activities.....	(613)	(14,872)
	-----	-----
<b>CASH AND CASH EQUIVALENTS:</b>		
Net change.....	(4,769)	(25,707)
Balance at beginning of period.....	25,271	46,748
	-----	-----
Balance at end of period.....	\$20,502	\$ 21,041
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for:		
Interest.....	\$ 1,765	\$ 8,537
Income taxes.....	61	134

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See notes to consolidated financial statements.

4

## PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 1 -- BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements (interim financial statements) include the accounts of Per-Se Technologies, Inc. and its subsidiaries ("Per-Se" or the "Company"). Intercompany accounts and transactions have been eliminated.

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, the rules and regulations of the Securities and Exchange Commission for interim financial statements and accounting policies consistent, in all material respects, with those applied in preparing the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on March 7, 2005 ("2003 Form 10-K/A"). These interim financial statements are unaudited but reflect all adjustments (consisting of normal recurring adjustments) management considers necessary for a fair presentation of the Company's financial position, operating results and cash flows for the interim periods presented. The information included in this report should be read in conjunction with the 2003 Form 10-K/A.

The consolidated financial statements of the Company have been presented to reflect the former operations of the Hospital Services division's Patient1 clinical product line ("Patient1") and Business1-PFM patient accounting product line ("Business1") as discontinued operations. Patient1 was sold effective July 28, 2003, and Business1 was sold effective January 31, 2004. Additionally, the activity related to the Company's former Medaphis Services Corporation ("MSC") and Impact Innovations Group ("Impact") businesses, which were sold in 1998 and 1999, respectively, are also reflected as discontinued operations for all periods presented (refer to Note 7 for additional information).

#### NOTE 2 -- STOCK-BASED COMPENSATION PLANS

At March 31, 2004, the Company has four stock-based compensation plans. The Company accounts for its stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"). No stock-based compensation cost is reflected in the Company's Statements of Operations, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of Statement of Financial

5

## PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), to this stock-based compensation.

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	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net income as reported.....	\$ 1,027	\$ 1,837
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.....	\$ (934)	\$ (1,307)
Pro forma net (loss) income.....	\$ 93	\$ 530
Net income per common share:		
Basic -- as reported.....	\$ 0.03	\$ 0.06
Basic -- pro forma.....	\$ --	\$ 0.02
Diluted -- as reported.....	\$ 0.03	\$ 0.06
Diluted -- pro forma.....	\$ --	\$ 0.02

NOTE 3 -- ADDITIONAL PROCEDURES

As a result of allegations of improprieties made during 2003 and 2004, the Company's independent auditors advised the Company and the Audit Committee of the Board of Directors that additional procedures should be performed related to the allegations. These additional procedures, which caused the March 31, 2004 Form 10-Q and 2003 Form 10-K filing delays, were required due to Statement of Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit ("SAS No. 99"), which became effective for periods beginning on or after December 15, 2002. Due to the volume and, in some cases, vague nature of many of the allegations, the scope of the additional procedures was broad and extensive.

The Company recorded operating costs related to the additional procedures totaling approximately \$3.9 million during the three months ended March 31, 2004, and included these costs in other expenses in the Company's Consolidated Statements of Operations. In segment reporting, these expenses are classified in the Corporate segment.

NOTE 4 -- REVENUE RECOGNITION

During the three months ended March 31, 2004, the Physician Services division signed an agreement ("the Agreement") with a customer to provide physician practice management services. Under the Agreement, Physician Services and the customer agreed to certain performance goals. The performance goals will be measured on an interim basis through February 28, 2009. At each interim measurement period, Physician Services will determine if the performance goals for that period have been achieved.

If Physician Services achieves the performance goal for an interim measurement period, Physician Services will recognize revenue as a percentage of the customer's net collections pursuant to its standard revenue recognition practice. If the Physician Services division does not achieve the performance goal for an interim measurement period, revenue will not be recognized to the extent the goal is not achieved.



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### NOTE 5 -- EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS reflects the potential dilution that could

6

### PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

occur from common shares issuable through stock options and warrants. The following sets forth the computation of basic and diluted net income per share for the three-months ended March 31, 2004, and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net income.....	\$ 1,027	\$ 1,837
Common shares outstanding:		
Shares used in computing net income per common share -- basic.....	31,531	30,172
Effect of potentially dilutive stock options and warrants.....	2,669	865
	-----	-----
Shares used in computing net income per common share -- diluted.....	34,200	31,037
	=====	=====
Net income per common share:		
Basic.....	\$ 0.03	\$ 0.06
	=====	=====
Diluted.....	\$ 0.03	\$ 0.06
	=====	=====

Options and warrants to purchase 0.9 million and 4.3 million shares of Common Stock during the three months ended March 31, 2004, and 2003, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the average market price of the common shares, and therefore, the effect would have been antidilutive.

### NOTE 6 -- FOREIGN CURRENCY TRANSLATION AND COMPREHENSIVE INCOME

The functional currency of the Company's operations outside of the United States is the local country's currency. Consequently, assets and liabilities of operations outside the United States are translated into dollars using exchange rates at the end of each reporting period. Revenue and expenses are translated at the average exchange rates prevailing during the period. Cumulative translation gains and losses are reported in accumulated other comprehensive loss. In the three-month periods ended March 31, 2004, and 2003, the only component of other comprehensive loss was the net foreign currency translation.

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THREE MONTHS  
ENDED MARCH 31,  
-----  
2004            2003  
-----  
(IN THOUSANDS)

Net foreign currency translation.....        \$28            \$106

NOTE 7 -- DISCONTINUED OPERATIONS AND DIVESTITURES

In June 2003, the Company announced that it agreed to sell Patient1 to Misys Healthcare Systems, a division of Misys plc ("Misys") for \$30 million in cash. Patient1 was the Company's only clinical product line and its sale allowed the Company to better focus on optimizing reimbursement and improving administrative efficiencies for physician practices and hospitals. The sale was completed on July 28, 2003. The Company recognized a gain on the sale of Patient1 of approximately \$10.4 million, net of taxes of approximately \$0.5 million, subject to closing adjustments, in 2003. Net proceeds on the sale of Patient1 were approximately \$27.9 million, subject to closing adjustments. The Company and Misys entered into binding arbitration regarding the final closing adjustments and on May 21, 2004, the arbitrator awarded the Company approximately \$4.3 million plus interest of approximately \$0.1 million, which is expected to be received on June 1, 2004.

In September 2003, the Company initiated a process to sell Business1. As with the sale of Patient1, the discontinuance of Business1 allowed the Company to focus resources on solutions that provide meaningful, strategic returns for the Company, its customers and its shareholders. Pursuant to SFAS No. 144, Accounting for

7

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), the Company wrote down the net assets of Business1 to fair market value less costs to sell and incurred an \$8.5 million expense during 2003. The Company completed the sale of Business1 effective January 31, 2004, to a privately held company for \$0.6 million, which will be received in three payments through June 2006. No cash consideration was received at closing.

Pursuant to SFAS No. 144, the consolidated financial statements of the Company have been presented to reflect Patient1 and Business1 as discontinued operations for all periods presented. Patient1 and Business1 were formerly reported as part of the Hospital Services division.

Summarized operating results for the discontinued operations are as follows:

THREE MONTHS ENDED MARCH 31,			
2004			
PATIENT1	BUSINESS1	TOTAL	PATIENT1
(IN THOUSANDS)			

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Revenue.....	\$ --	\$ 106	\$ 106	\$6,467
	====	=====	=====	=====
Loss from discontinued operations before income taxes...	\$ (18)	\$ (303)	\$ (321)	\$ (489)
Income tax expense.....	--	--	--	20
	----	-----	-----	-----
Loss from discontinued operations, net of tax.....	\$ (18)	\$ (303)	\$ (321)	\$ (509)
	====	=====	=====	=====

The major classes of assets and liabilities for the discontinued operations are as follows:

	AS OF	
	MARCH 31, 2004	DECEMBER 31, 2003
	BUSINESS1	BUSINESS1
	-----	-----
	(IN THOUSANDS)	
Current assets.....	\$--	\$129
Property and equipment.....	--	--
Other long-term assets.....	--	--
	----	----
Assets of discontinued operations.....	\$--	\$129
	==	=====
Current liabilities.....	\$--	\$422
Deferred revenue.....	--	--
Other long-term liabilities.....	--	--
	----	----
Liabilities of discontinued operations.....	\$--	\$422
	==	=====

On November 30, 1998, the Company completed the sale of its MSC business. In 1999, the Company completed the sale of both divisions of its Impact business.

During the three months ended March 31, 2004 and 2003, the Company incurred expenses of approximately \$63,000 and \$11,000, respectively, which were primarily legal costs, associated with MSC and Impact. Pursuant to APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB No. 30"), the consolidated financial statements of the Company are presented to reflect the activity associated with MSC and Impact as discontinued operations for all periods presented.

NOTE 8 -- LEGAL MATTERS

PENDING LEGAL MATTERS

The Company is subject to claims, litigation and official billing inquiries arising in the ordinary course of its business. These matters include, but are not limited to, lawsuits brought by former customers with respect to the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

operation of the Company's business. The Company has also received written demands from customers and former customers that have not resulted in legal action. Within the Company's industry, federal and state civil and criminal laws govern medical billing and collection activities. These laws provide for various fines, penalties, multiple damages, assessments and sanctions for violations, including possible exclusion from federal and state healthcare payer programs.

The Company believes that it has meritorious defenses to the claims and other issues asserted in pending legal matters; however, there can be no assurance that such matters or any future legal matters will not have an adverse effect on the Company. Amounts of awards or losses, if any, in pending legal matters have not been reflected in the financial statements unless probable and reasonably estimable.

### SETTLED LEGAL MATTERS

On May 10, 2004, the Company reached a \$20 million settlement with the Company's former insurance carrier, Certain Underwriters at Lloyd's of London (collectively "Lloyd's").

The settlement entails a \$20 million cash payment that is payable by Lloyd's 60 days from the settlement date or by July 9, 2004. Lloyd's will, at their expense, defend, settle or otherwise resolve the two remaining pending claims under the errors and omissions ("E&O") policies issued to the Company by Lloyd's. In exchange, Per-Se will provide Lloyd's with a full release of all E&O and directors and officers and company reimbursement ("D&O") policies. The California Superior Court will retain jurisdiction to enforce any aspect of the settlement agreement.

At March 31, 2004, and at the time of settlement, the Company's Lloyd's receivable was \$18.3 million, which includes costs associated with the interim funding of legal costs and litigation settlements related to E&O claims that were incurred by the Company in excess of the Lloyd's E&O policies' deductible that are expected to be recovered from Lloyd's. This \$18.3 million balance includes \$13.5 million that was paid during 2002, 2003 and 2004, and additional obligations to be paid of approximately \$4.8 million. The additional obligations of approximately \$4.8 million are scheduled to be paid as follows: \$0.6 million during the first half of 2004, \$1.1 million in January 2005 and \$3.1 million upon receipt of the cash settlement from Lloyd's.

### NOTE 9 -- LONG-TERM DEBT

On February 20, 1998, the Company issued \$175 million of 9 1/2% Senior Notes due 2005 (the "Notes"). On March 17, 2003, the Company repurchased \$15.0 million of the Notes at par plus accrued interest of approximately \$0.1 million. The Company incurred a write-off of approximately \$0.2 million of deferred debt issuance costs associated with the original issuance of the Notes related to this repurchase, which is included in loss on extinguishment of debt in the Company's Consolidated Statements of Operations.

On August 12, 2003, the Company commenced a cash tender offer for its then-outstanding \$160 million of Notes (the "Tender Offer"). On September 11, 2003, the Company repurchased \$143.6 million of the Notes that were tendered at the redemption price of 102.625% of the principal amount, as required under the Indenture governing the Notes, and paid accrued interest of approximately \$1.0 million. The remaining \$16.4 million of the Notes were retired on September 18, 2003, through a call initiated by the Company on August 12, 2003, at the redemption price of 102.375% of the principal amount plus accrued interest of approximately \$10,000 (the "Call").

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On April 16, 2001, the Company entered into a \$50 million credit facility (the "2001 Credit Facility"). The Company did not incur any borrowings under the 2001 Credit Facility, and on September 11, 2003, the Company terminated the 2001 Credit Facility.

On September 11, 2003, concurrent with termination of the 2001 Credit Facility, the Company entered into a \$175 million Credit Agreement (the "Credit Agreement"). The Credit Agreement consists of a \$125 million Term Loan B (the "Term Loan B") and a \$50 million revolving credit facility (the "Revolving Credit Facility").

9

### PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

The Company had approximately \$118.8 million outstanding under the Term Loan B as of March 31, 2004, under a LIBOR-based interest contract, bearing interest at 5.36%. The Company has made all required principal payments through March 31, 2004. The Company has had no borrowings outstanding under the Revolving Credit Facility since its inception.

All obligations under the Credit Agreement are fully and unconditionally guaranteed, on a senior secured basis, jointly and severally by all of the Company's present and future domestic and material foreign subsidiaries (the "Subsidiary Guarantors"). The financial statements of the Subsidiary Guarantors have not been presented as all subsidiaries, except for certain minor foreign subsidiaries, have provided guarantees and the parent company does not have any significant operations or assets, separate from its investment in those subsidiaries. Any non-guarantor subsidiaries are minor individually and in the aggregate to the Company's consolidated financial statements. There are no restrictions on the Subsidiary Guarantors that would prohibit the transfer of funds or assets to the parent company by dividend or loan.

Under the Credit Agreement, the Company has certain reporting requirements for the submission of its financial statements to the Lenders, as defined in the Credit Agreement. On April 30, 2004, the Company was granted an extension of the May 15, 2004, submission deadline for its results for the period ended March 31, 2004. The Company has until the extended deadline of May 28, 2004, to submit its first quarter 2004 financial statements to the Lenders.

The Credit Agreement contains financial and other restrictive covenants, including, without limitation, those restricting additional indebtedness, lien creation, dividend payments, asset sales and stock offerings, and those requiring a minimum net worth, maximum leverage and minimum fixed charge coverage, each as defined in the Credit Agreement. The Company was in compliance with all applicable covenants as of March 31, 2004.

The initial term of the Revolving Credit Facility is three years. The Company and the Lenders can mutually agree to extend this term by up to two years. The Company intends to use the Revolving Credit Facility, as needed, for future investments in its operations, including capital expenditures, strategic acquisitions, to secure its letters of credit, as needed, and other general corporate purposes.

#### NOTE 10 -- INCOME TAXES

Income tax expense, which was primarily related to state and local income taxes, was approximately \$0.2 million and \$0.3 million for the three months ended March 31, 2004, and 2003, respectively. The Company's estimated federal income tax expense for the three months ended March 31, 2004, is offset by the release of an equal amount of the Company's valuation allowance. As of March 31,

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2004, the Company's remaining net deferred tax asset was fully offset by a valuation allowance. Realization of the net deferred tax asset is dependent upon the Company generating sufficient taxable income prior to the expiration of the federal net operating loss carryforwards. The Company will adjust this valuation reserve accordingly if, during future periods, management believes the Company will generate sufficient taxable income to realize the net deferred tax asset.

NOTE 11 -- RESTRUCTURING EXPENSES

The amount of lease termination costs associated with a 1995 restructuring applied against the reserve in the three months ended March 31, 2004, is as follows:

	RESERVE BALANCE DECEMBER 31, 2003 -----	COSTS APPLIED AGAINST RESERVE -----	RESERVE BALANCE MARCH 31, 2004 -----
	(IN THOUSANDS)		
Lease termination costs.....	\$1,430	\$(59)	\$1,371

10

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

During the three months ended March 31, 2004, the Company incurred approximately \$47,000 of restructuring expenses related to the realignment of the Company into the Physician Services and Hospital Services divisions.

NOTE 12 -- SEGMENT REPORTING

The Company's reportable segments are operating units that offer different services and products. Per-Se provides its services and products through its two operating divisions: Physician Services and Hospital Services.

The Physician Services division provides Connective Healthcare solutions that manage the revenue cycle for physician groups. The division is the largest provider of business management outsourced services that supplant all or most of the administrative functions of a physician group. The target market is primarily hospital-affiliated physician groups in the specialties of radiology, anesthesiology, emergency medicine and pathology as well as physician groups practicing in the academic setting and other large physician groups. The division recognizes revenue primarily on a contingency fee basis, which aligns the division's interests with the interests of the physician groups it services. The outsourced services business recognizes revenue as a percentage of the physician group's cash collections for the services performed. Since this is an outsourced service delivered on the Company's proprietary technology, license fees or maintenance fees are not required to be paid by the division's hospital-affiliated physician groups. The division also sells a physician practice management ("PPM") solution that is delivered via an ASP model. The PPM solution collects a monthly usage fee from the office-based physician practices using the system. The division's revenue model is 100% recurring in nature due to the transaction-based nature of its fee revenue in the outsourced services business and the monthly usage fee in the PPM business. The business of the Physician Services division is conducted by PST Services, Inc. a Georgia corporation d/b/a "Per-Se Technologies," which is a wholly owned subsidiary of the Company.

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The Hospital Services division provides Connective Healthcare solutions that increase revenue and decrease expenses for hospitals, with a focus on revenue cycle management and resource management. The division's revenue cycle management solutions enable a hospital's central billing office to improve its revenue cycle. The division has one of the largest clearinghouses in the medical industry, which provides an important infrastructure to support its revenue cycle offering. The division also provides resource management solutions that enable hospitals efficiently to manage resources, such as personnel and the operating room, to reduce costs and improve their bottom line. The division primarily recognizes revenue on a per-transaction basis for its revenue cycle management solutions and primarily recognizes revenue on a percentage-of-completion basis or upon software shipment for sales of its resource management software solutions. Approximately 88% of the division's revenue is recurring due to its transaction-based business and the maintenance revenue from its substantial installed base for the resource management software solutions. The business of the Hospital Services division is conducted by the following wholly owned subsidiaries of the Company: Per-Se Transaction Services, Inc., an Ohio corporation; Patient Account Management Services, Inc., an Ohio corporation; PST Products, LLC, a California limited liability company; and Knowledgeable Healthcare Solutions, Inc., an Alabama corporation. All of these subsidiaries do business under the name "Per-Se Technologies."

The Company evaluates each segment's performance based on its segment operating profit. Segment operating profit is revenue less segment operating expenses, which include salaries and wages expenses, other operating expenses, restructuring expenses, depreciation and amortization.

The Hospital Services segment revenue includes intersegment revenue for services provided to the Physician Services segment, which are shown as eliminations to reconcile to total consolidated revenue.

11

### PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

The Company's segment information from continuing operations is as follows:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	(IN THOUSANDS)	
Revenue:		
Physician Services.....	\$63,183	\$62,069
Hospital Services.....	24,771	23,166
Eliminations.....	(3,353)	(3,237)
	\$84,601	\$81,998
	=====	=====
Segment operating expenses:		
Physician Services.....	\$57,230	\$54,734
Hospital Services.....	18,969	18,596
Corporate.....	7,894	3,905
Eliminations.....	(3,353)	(3,237)
	\$80,740	\$73,998
	=====	=====

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	=====	=====
Segment operating income:		
Physician Services.....	\$ 5,953	\$ 7,335
Hospital Services.....	5,802	4,570
Corporate.....	(7,894)	(3,905)
	-----	-----
	\$ 3,861	\$ 8,000
	=====	=====
Interest expense.....	\$ 2,074	\$ 4,482
	=====	=====
Interest income.....	\$ (52)	\$ (108)
	=====	=====
Loss on extinguishment of debt.....	\$ --	\$ 221
	=====	=====
Income before income taxes.....	\$ 1,839	\$ 3,405
	=====	=====
Depreciation and amortization:		
Physician Services.....	\$ 2,424	\$ 2,714
Hospital Services.....	1,320	1,328
Corporate.....	150	249
	-----	-----
	\$ 3,894	\$ 4,291
	=====	=====
Capital expenditures and capitalized software development costs:		
Physician Services.....	\$ 1,610	\$ 921
Hospital Services.....	1,150	827
Corporate.....	4	18
	-----	-----
	\$ 2,764	\$ 1,766
	=====	=====

12

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

		AS OF	
		-----	-----
		MARCH 31,	DECEMBER 31,
		2004	2003
		-----	-----
		(IN THOUSANDS)	
Identifiable assets:			
Physician Services.....	\$ 64,918	\$ 63,222	
Hospital Services.....	56,602	58,021	
Corporate.....	46,986	50,281	
Discontinued operations.....	--	129	
	-----	-----	
	\$168,506	\$171,653	
	=====	=====	

13

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



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## OF OPERATIONS

### DESCRIPTION OF BUSINESS

Per-Se Technologies, Inc. ("Per-Se" or the "Company"), a corporation organized in 1985 under the laws of the State of Delaware, provides integrated business management outsourcing services, Internet-enabled connectivity and administrative software for the healthcare industry. Per-Se delivers its services and products through its two operating divisions: Physician Services and Hospital Services.

On July 1, 2003, the Company realigned its operations to better focus on its core healthcare constituents -- physician practices and hospitals. The Company created the Hospital Services division by combining the offerings of the former e-Health Solutions and Application Software divisions, with the exception of the Company's application service provider ("ASP")-based physician practice management ("PPM") solution, which was transferred to the Physician Services division.

The Physician Services division provides business management outsourcing services to the hospital-affiliated physician practice market, physicians in academic settings and other large physician practices. The division provides a complete outsourcing service, therefore, allowing physician groups to avoid the infrastructure investment in their own in-house billing office. Services include clinical data collection, data input, medical coding, billing, contract management, cash collections and accounts receivable management. These services are designed to assist healthcare providers with the business management functions associated with the delivery of healthcare services, allowing physicians to focus on providing quality patient care. These services also assist physicians in improving cash flows and reducing administrative costs and burdens. The division's offerings have historically focused on the back-end processes required to ensure physicians are properly reimbursed for care delivery. The addition of the ASP-based physician practice management solution, named MedAxxis, as part of the realignment not only provides operational leverage but also enables the Company to offer front-end solutions for both hospital- and office-based physician groups. These large physician groups require both front-office functionality for scheduling and back-end services for accounts receivable management. By combining front-office and back-end solutions and services, the Company will be able to sell its solutions and services to a new segment of the physician market.

To better serve the hospital marketplace, the Company has formed the Hospital Services division through the combination of the former e-Health Solutions and Application Software divisions. The products of both groups focus on optimizing the revenue cycle and improving administrative efficiencies for hospitals. Combining these offerings allows the Company to better leverage its solutions and provides an organizational structure through which to broaden the Company's offerings to hospitals. Solutions include electronic claims processing, referral submissions, eligibility verification and other electronic and paper transaction processing as well as patient and staff scheduling systems.

Per-Se markets its products and services to constituents of the healthcare industry, primarily to hospital-affiliated physician practices, physician groups in academic settings, hospitals and integrated delivery networks ("IDNs").

### GENERAL OVERVIEW

Management believes the key elements for assessing the Company's performance are the ability to generate stable and improving operating profit margins on the Company's existing business, and to generate margin expansion through higher contribution margins on incremental revenue growth. Higher

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contribution margins on incremental revenue are generally achieved by leveraging the Company's existing infrastructure and resources. The assessment of the Company's performance sometimes involves evaluating the business excluding non-operational items that may be incurred.

Consolidated revenue for the three months ended March 31, 2004, increased approximately 3% as compared to the same period of 2003 primarily due to an increase in software maintenance revenue in the Hospital Services division. Consolidated operating margins declined from 9.8% in the first quarter of 2003 to 4.6% in the first quarter of 2004 primarily due to the costs associated with the additional procedures as part of the year-end 2003 audit. Excluding these costs, operating profit generated from the business was stable, except for the expected

14

short-term impact of the implementation costs for the significant amount of net new business that was sold in the Physician Services division in the first quarter of 2004 (a 366% increase over the first quarter of 2003).

Improvements in the Company's capital structure during 2003 decreased interest expense during the first quarter of 2004 by \$2.4 million compared to the prior year period. This decrease in interest expense contributed to the reduction in net cash used for continuing operations during the first quarter of 2004. Net cash used for continuing operations decreased by \$4.5 million compared to the prior year period. The Company historically experiences a use of cash from continuing operations during the first quarter of the year due to seasonality.

### RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004, AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

Revenue. Revenue classified by the Company's reportable segments ("divisions") is as follows:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	(IN THOUSANDS)	
Physician Services.....	\$63,183	\$62,069
Hospital Services.....	24,771	23,166
Eliminations.....	(3,353)	(3,237)
	\$84,601	\$81,998
	=====	=====

Revenue for the Physician Services division increased approximately 2% in the three months ended March 31, 2004, as compared to the same period in 2003. Pricing for the division's services and products was stable compared to the prior year period. The revenue increase is due to the implementation of net new business sold of \$12 million during the first quarter of 2004 as well as in prior periods. Net new business sold is defined as the annualized revenue value of new contracts signed in a period, less the annualized revenue value of terminated business in that same period. Revenue also increased due to one

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additional business day in the first quarter of 2004 compared to the prior year period. Net backlog at March 31, 2004, was approximately \$5 million, compared to the negative backlog of approximately \$2 million at December 31, 2003. The increase in net backlog is a result of the record level of net new business sold during the three months ended March 31, 2004. Net backlog represents the annualized revenue related to new contracts signed with the business still to be implemented, less the annualized revenue related to existing contracts where discontinuance notification has been received and the customer has yet to be phased out. The Company focuses on maintaining a positive net backlog and believes it is a useful indicator of future revenue growth.

Revenue for the Hospital Services division increased approximately 7% for the three months ended March 31, 2004, as compared to the same period in 2003. Pricing for the division's services and products was stable compared to the prior year period. Revenue growth in the division is related to an increase in software maintenance revenue attributable to previously unbilled maintenance for certain software customers that is being recognized upon receipt of payment. Medical transaction volume increased approximately 6% for the period over the same period of 2003. Revenue growth does not necessarily correlate directly to transaction volume due to the mix of services and products sold by the division. The Company believes transaction volume is a useful indicator of future revenue growth as business is implemented into the division's recurring revenue model.

The Hospital Services division revenue includes intersegment revenue for services provided to the Physician Services division, which is shown in Eliminations to reconcile to total consolidated revenue.

Segment Operating Income. Segment operating income is segment revenue less segment operating expenses, which include salaries and wages expense, other operating expenses, additional procedures and

15

restructuring expenses, depreciation and amortization. Segment operating income, classified by the Company's divisions, is as follows:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	(IN THOUSANDS)	
Physician Services.....	\$ 5,953	\$ 7,335
Hospital Services.....	5,802	4,570
Corporate.....	(7,894)	(3,905)
	\$ 3,861	\$ 8,000
	=====	=====

Physician Services' segment operating income decreased approximately 19% in the three months ended March 31, 2004, compared to the same period in 2003, resulting in operating margins of approximately 9.4% in the three months ended March 31, 2004, versus approximately 11.8% in the same period in 2003. Margins for the current year period were negatively impacted by costs associated with the implementation of the record level of net new business sold during the quarter of approximately \$12 million. Historically, new business is progressively implemented over a period of six to nine months before it reaches

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its annualized revenue run-rate and full profitability.

Hospital Services' segment operating income increased approximately 27% in the three months ended March 31, 2004, compared to the same period in 2003, resulting in operating margins of approximately 23.4% versus approximately 19.7% in the prior year period. The operating margin improvement is attributable to the previously unbilled maintenance revenue for certain software customers that is being recognized upon receipt of payment.

Corporate overhead expenses, which include certain executive and administrative functions, increased approximately \$4.0 million or approximately 102% in the three months ended March 31, 2004, compared to the same period in 2003. The increase is attributable primarily to expenses incurred to perform the additional procedures discussed below.

Other Expenses. As a result of allegations of improprieties made during 2003 and 2004, the Company's external auditors advised the Company and the Audit Committee of the Board of Directors that additional procedures should be performed related to the allegations. These additional procedures, which caused the March 31, 2004 Form 10-Q and 2003 Form 10-K filing delays, were required due to Statement of Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit, ("SAS No. 99"), which became effective for periods beginning on or after December 15, 2002. Due to the volume and, in some cases, vague nature of many of the allegations, the scope of the additional procedures was broad and extensive.

The Company recorded operating costs related to the additional procedures totaling approximately \$3.9 million during the three months ended March 31, 2004, and included these costs in other expenses in the Company's Consolidated Statements of Operations. In segment reporting these costs are classified in the Corporate Segment.

Additionally, during the three months ended March 31, 2004, the Company incurred approximately \$47,000 of restructuring expenses related to the realignment of the Company into the Physician Services and Hospital Services divisions.

Interest. Interest expense was approximately \$2.1 million for the three months ended March 31, 2004, as compared to \$4.5 million for the same period in 2003. The decrease is attributable to the retirement of \$50 million of long-term debt in the first nine months of 2003, the payment of \$3.1 million of long-term debt during the fourth quarter of 2003 and entering into a new Credit Agreement in September 2003 at substantially lower interest rates (fixed 9.5% rate in the first quarter of 2003 compared to a LIBOR plus 4.25% rate, or approximately 5.42%, in the first quarter of 2004). Interest income was \$0.1 million for the three-month periods ended March 31, 2004, and 2003.

16

Loss on Extinguishment of Debt. During the three months ended March 31, 2003, in connection with the retirement of \$15 million of the Company's then-outstanding 9 1/2 % Senior Notes due 2005 ("Notes"), the Company incurred a write-off of approximately \$0.2 million of deferred debt issuance costs associated with the original issuance of the Notes.

Income Taxes. Income tax expense, which was primarily related to state and local income taxes, was approximately \$0.2 million and \$0.3 million for the three months ended March 31, 2004 and 2003, respectively. The Company's estimated federal income tax expense for the three months ended March 31, 2004, is offset by the release of an equal amount of the Company's valuation allowance. As of March 31, 2004, the Company's net deferred tax asset was fully

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offset by a valuation allowance. Realization of the net deferred tax asset is dependent upon the Company generating sufficient taxable income prior to the expiration of the federal net operating loss carryforwards. The Company will adjust this valuation reserve accordingly if, during future periods, management believes the Company will generate sufficient taxable income to realize the net deferred tax asset.

**Discontinued Operations.** In June 2003, the Company announced that it agreed to sell Patient1 to Misys Healthcare Systems, a division of Misys plc ("Misys") for \$30 million in cash. Patient1 was the Company's only clinical product line and its sale allowed the Company to better focus on optimizing reimbursement and improving administrative efficiencies for physician practices and hospitals. The sale was completed on July 28, 2003. The Company recognized a gain on the sale of Patient1 of approximately \$10.4 million, net of taxes of approximately \$0.5 million, subject to closing adjustments, in 2003. Net proceeds on the sale of Patient1 were approximately \$27.9 million, subject to closing adjustments. The Company and Misys entered into binding arbitration regarding the final closing adjustments and on May 21, 2004, the arbitrator awarded the Company approximately \$4.3 million plus interest of approximately \$0.1 million, which is expected to be received on June 1, 2004.

In September 2003, the Company initiated a process to sell Business1. As with the sale of Patient1, the discontinuance of Business1 allowed the Company to focus resources on solutions that provide meaningful, strategic returns for the Company, its customers and its shareholders. Pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), the Company wrote down the net assets of Business1 to fair market value less costs to sell and incurred an \$8.5 million expense. The Company completed the sale of Business1 effective January 31, 2004, to a privately held company for \$0.6 million, which will be received in three payments through June 2006. No cash consideration was received at closing.

Pursuant to SFAS No. 144, the consolidated financial statements of the Company have been presented to reflect Patient1 and Business1 as discontinued operations for all periods presented. Patient1 and Business1 were formerly reported as part of the Hospital Services division.

Summarized operating results for the discontinued operations are as follows:

	THREE MONTHS ENDED MARCH 31,					
	2004			2003		
	PATIENT1	BUSINESS1	TOTAL	PATIENT1	BUSINESS1	TOTAL
	(IN THOUSANDS)					
Revenue.....	\$ --	\$ 106	\$ 106	\$6,467	\$ 154	\$ 6,621
	====	=====	=====	=====	=====	=====
Loss from discontinued operations before income taxes.....	\$(18)	\$(303)	\$(321)	\$ (489)	\$(764)	\$(1,253)
Income tax expense.....	--	--	--	20	--	20
	----	-----	-----	-----	-----	-----
Loss from discontinued operations, net of tax.....	\$(18)	\$(303)	\$(321)	\$ (509)	\$(764)	\$(1,273)
	====	=====	=====	=====	=====	=====

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17

The major classes of assets and liabilities for the discontinued operations are as follows:

	AS OF	
	MARCH 31, 2004 BUSINESS1	DECEMBER 31, 2003 BUSINESS1
	(IN THOUSANDS)	
Current assets.....	\$ --	\$129
Property and equipment.....	--	--
Other long-term assets.....	--	--
	-----	-----
Assets of discontinued operations.....	\$	\$129
	=====	=====
Current liabilities.....	\$ --	\$422
Deferred revenue.....	--	--
Other long-term liabilities.....	--	--
	-----	-----
Liabilities of discontinued operations.....	\$ --	\$422
	=====	=====

On November 30, 1998, the Company completed the sale of its MSC business. In 1999, the Company completed the sale of both divisions of its Impact business.

During the three months ended March 31, 2004, and 2003, the Company incurred expenses of approximately \$63,000 and \$11,000, respectively, which were primarily legal costs, associated with MSC and Impact. Pursuant to APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB No. 30"), the consolidated financial statements of the Company are presented to reflect the activity associated with MSC and Impact as discontinued operations for all periods presented.

LIQUIDITY AND CAPITAL RESOURCES

The following table is a summary of the Company's cash balances as of March 31, 2004, and December 31, 2003, and cash flows from continuing operations for the three months ended March 31, 2004, and 2003, (in thousands):

	MARCH 31, 2004 -----	DECEMBER 31, 2003 -----
Unrestricted cash and cash equivalents.....	\$20,502	\$25,271
	THREE MONTHS ENDED	
	MARCH 31,	
	-----	
	2004	2003

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	-----	-----
Cash used for continuing operations.....	\$ (696)	\$ (5,248)
Cash used for investing activities from continuing operations.....	\$ (2,977)	\$ (1,784)
Cash used for financing activities from continuing operations.....	\$ (613)	\$ (14,872)

Unrestricted cash and cash equivalents include all highly liquid investments with an initial maturity of no more than three months at the date of purchase.

Restricted cash of approximately \$0.1 million at March 31, 2004 and December 31, 2003, represent amounts collected on behalf of certain Physician Services and Hospital Services clients, a portion of which is held in trust until it is remitted to such clients.

During the three months ended March 31, 2004, the Company used approximately \$0.7 million in cash for continuing operations, which includes cash generated from normal operations offset by cash payments related to additional procedures necessary under SAS No. 99 totaling approximately \$2.4 million (refer to "Note 3 -- Additional Procedures" in the Company's Notes to Consolidated Financial Statements for more information), the payment of approximately \$3.4 million in expenses and legal settlements related to the matter with Lloyd's of London (refer to "Note 8 -- Legal Matters" in the Company's Notes to Consolidated Financial Statements for more information) and quarterly interest payments of approximately \$1.7 million.

18

During the three months ended March 31, 2003, the Company used approximately \$5.2 million in cash for continuing operations, which includes cash used for normal operations offset by semi-annual interest payments of approximately \$8.3 million and the payment of approximately \$2.8 million in expenses and legal settlements related to the matter with Lloyd's of London (refer to "Note 8 -- Legal Matters" in the Company's Notes to Consolidated Financial Statements for more information).

During the three months ended March 31, 2004, the Company used approximately \$3.0 million in cash from investing activities from continuing operations primarily for capital expenditures and investment in software development costs.

During the three months ended March 31, 2003, the Company used approximately \$1.8 million in cash from investing activities from continuing operations primarily for capital expenditures and software development costs.

During the three months ended March 31, 2004, the Company used approximately \$0.6 million in cash from financing activities. The Company used \$3.1 million for repayment of the Company's long-term debt in accordance with the mandatory amortization schedule, which was offset by proceeds from the exercise of stock options of \$2.5 million.

During the three months ended March 31, 2003, the Company used approximately \$14.9 million in cash from financing activities primarily related to the acceptance of the Company's offer to repurchase \$15 million of the Company's then-outstanding 9 1/2% Senior Notes due 2005.

For more information about the Company's long-term debt, refer to "Note 9 -- Long-Term Debt" in the Company's Notes to Consolidated Financial

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Statements.

The level of the Company's indebtedness could adversely impact the Company's ability to obtain additional financing. A substantial portion of the Company's cash flow from operations could be dedicated to the payment of principal and interest on its indebtedness.

On May 10, 2004 the Company reached a \$20 million settlement in its litigation with Lloyd's.

During the course of litigation the Company was required to fund the legal costs and any litigation settlements related to E&O claims covered by the Lloyd's E&O policies. The negative impact of these items on the Company's cash flow for the three months ended March 31, 2004, was approximately \$3.4 million, which consisted of approximately \$0.6 million related to the cost of pursuing the litigation against Lloyd's and approximately \$2.8 million related to the funding of legal costs and litigation settlements covered by the Lloyd's E&O policies. The negative impact of these items on the Company's cash flow for the three months ended March 31, 2003, was approximately \$2.8 million, which consisted of approximately \$1.3 million related to insurance premium increases for new insurance coverage and the cost of pursuing the litigation against Lloyd's and approximately \$1.5 million related to the funding of legal costs and litigation settlements covered by the Lloyd's E&O policies. As of March 31, 2004, and as of the settlement date, the Company had incurred approximately \$18.3 million of costs related to claims under Lloyd's policies that are classified as Lloyd's receivable in the Company's Consolidated Balance Sheet. As of March 31, 2004, approximately \$13.5 million of these costs have been paid by the Company. The Company expects to record a gain of approximately \$1.7 million on settlement when the cash is received.

For the three months ended March 31, 2004, and 2003, the Company incurred approximately \$0.7 million and \$1.3 million, respectively, of expenses related to the cost of pursuing the litigation against Lloyd's in each period and, in 2003, significantly increased insurance premiums. These costs have been reflected in the Company's Corporate segment. In the Consolidated Statements of Operations these costs are included in other operating expenses.

As mentioned previously, the cost to perform the additional procedures associated with preparing the year-end 2003 financial statements was approximately \$3.9 million, of which approximately \$2.4 million was paid for the quarter ended March 31, 2004. These operating costs are reflected in other expenses in the Company's Consolidated Statements of Operations. As the additional procedures were completed during early May 2004, the Company anticipates incurring additional expense of \$2.0 to \$3.0 million in the second quarter of 2004.

19

With the exception of the Lloyd's receivable and payments made for the additional procedures associated with the 2003 year-end audit, the Company has not experienced material changes in the underlying components of cash generated from continuing operations. The Company believes that existing cash and the cash provided by operations will provide sufficient capital to fund its working capital requirements, contractual obligations, investing and financing needs and any costs associated with its litigation with Lloyd's.

On September 11, 2003, the Company entered into the Credit Agreement, including the Revolving Credit Facility. Under the Credit Agreement, the Company has the option of entering into LIBOR based loans or Base Rate loans, each as defined in the Credit Agreement. LIBOR based loans under the Revolving Credit Facility bear interest at LIBOR plus amounts ranging from 3.0% to 3.5% based on



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the Company's leverage ratio, as defined in the Credit Agreement. Base Rate loans under the Revolving Credit Facility bear interest at the Base Rate plus amounts ranging from 1.50% to 2.00% based on the Company's leverage ratio, as defined in the Credit Agreement. In addition, the Company pays a quarterly commitment fee on the unused portion of the Revolving Credit Facility of 0.50% per annum. The Company has not incurred any borrowing under the Revolving Credit Facility and does not expect to incur any borrowings thereunder to fund its working capital or ordinary investing needs.

Under the Credit Agreement, the Company has certain reporting requirements for the submission of its financial statements to the Lenders, as defined in the Credit Agreement. On April 30, 2004, the Company was granted an extension of the May 15, 2004, submission deadline for its results for the period ended March 31, 2004. The Company has until the extended deadline of May 28, 2004, to submit its first quarter 2004 financial statements to the Lenders.

### FORWARD-LOOKING STATEMENTS

Certain statements included in the Notes to Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report including but not limited to certain statements set forth under the captions "Note 7 -- Discontinued Operations and Divestitures," "Note 8 -- Legal Matters," "Note 9 -- Long-Term Debt," "Note 10 -- Income Taxes," "Results of Operations" and "Liquidity and Capital Resources," are "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Forward-looking statements include the Company's expectations with respect to meritorious defenses to the claims and other issues asserted in pending legal matters, the effect of industry and regulatory changes on the Company's customer base, the impact of revenue backlog on future revenue, gain on sale and net proceeds related to the Patient1 product line divestiture, fair market value less costs to sell of Business1, overall profitability and the availability of capital. Although the Company believes that the statements it has made are based on reasonable assumptions, they are based on current information and beliefs and, accordingly, the Company can give no assurance that its expectations will be achieved. In addition, these statements are subject to factors that could cause actual results to differ materially from those suggested by the forward-looking statements. These factors include, but are not limited to, factors identified below under the caption "Factors That May Affect Future Results of Operations, Financial Condition or Business" and "Quantitative and Qualitative Disclosures about Market Risk." The Company disclaims any responsibility to update any forward-looking statements.

### FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS, FINANCIAL CONDITION OR BUSINESS

Per-Se provides the following risk factor disclosures in connection with its continuing efforts to qualify its written and oral forward-looking statements for the safe harbor protection of the Reform Act and any other similar safe harbor provisions. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the following:

IF THE COMPANY FAILS TO MAINTAIN AN EFFECTIVE SYSTEM OF INTERNAL CONTROLS, THE COMPANY MAY NOT BE ABLE TO ACCURATELY REPORT THE COMPANY'S FINANCIAL RESULTS ON A TIMELY BASIS. AS A RESULT, CURRENT AND POTENTIAL

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WOULD HARM THE COMPANY'S BUSINESS AND THE TRADING PRICE OF THE COMPANY'S STOCK.

As a result of errors that led to the restatements of the Company's financial statements for the years ended December 31, 2001 and 2002 and the nine months ended September 30, 2003, the Company's independent auditors determined that a material weakness related to the Company's internal controls exists. The Company's auditors reported to the Company that the errors that resulted in the restatements were the result of not having appropriate controls over the estimation process associated with the establishment of accruals and reserves and the lack of adequate supervision of accounting personnel. The errors generally related to the recording of accruals for sales commissions, vacation liabilities, legal expenses, health insurance, incentive compensation and other liabilities. While the Company has taken steps to improve controls in these areas, the Company cannot be certain that these steps will ensure that it implements and maintains adequate controls over financial processes and reporting. Failure to maintain adequate controls of this type could adversely impact the accuracy and future timeliness of its financial reports filed pursuant to the Securities Exchange Act of 1934. If the Company cannot provide reliable and timely financial reports, its business and operating results could be harmed, investors could lose confidence in its reported financial information, its common stock could be delisted from the Nasdaq Stock Market, and the trading price of its common stock could fall. In addition, beginning with its 2004 audit, the Company must comply with Section 404(a) of the Sarbanes-Oxley Act, which requires an annual management assessment of the effectiveness of the Company's internal controls over financial reporting and a report by the Company's independent auditors addressing that assessment. In light of the material weakness identified in connection with the Company's 2003 audit, there can be no assurance that the Company or its independent auditors will be able to conclude that the Company has effective internal controls over financial reporting in connection with the 2004 audit, which could raise the same concerns identified above.

IF A PENDING NASDAQ DELISTING PROCESS IS NOT VACATED, THE COMPANY'S COMMON STOCK MAY BE DELISTED FROM THE NASDAQ STOCK MARKET, WHICH COULD HAVE AN ADVERSE IMPACT ON THE MARKET AND TRADING PRICE FOR THE COMPANY'S COMMON STOCK.

On April 1, 2004, the Company received a noncompliance notification from The Nasdaq Stock Market ("Nasdaq") due to the delay in filing the 2003 Form 10-K. On April 29, 2004, the Company had a hearing on the matter before a Nasdaq Listing Qualifications Panel (the "Panel"). The Panel has not yet issued its decision, but is expected to do so shortly. In addition, the Company did not timely file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (this Form 10-Q), and on May 18, 2004, the Company received a noncompliance notification from Nasdaq due to the delay in filing this Form 10-Q. Although the Company believes that it will meet all Nasdaq listing standards upon the filing of this Form 10-Q and that the Nasdaq delisting process will thereupon be vacated, there can be no assurance that the delisting process will be vacated and that the Company's common stock will continue to trade on the Nasdaq National Market. If the Company's common stock is delisted from the Nasdaq National Market, it could have an adverse impact on the market for the Company's common stock.

THE COMPANY HAS A SIGNIFICANT AMOUNT OF LONG-TERM DEBT AND OBLIGATIONS TO MAKE PAYMENTS, WHICH COULD LIMIT THE COMPANY'S FUNDS AVAILABLE FOR OTHER ACTIVITIES.

The Company has approximately \$119 million of long-term indebtedness and, as a result, has obligations to make interest and principal payments on that debt. If unable to make the required debt payments, the Company could be required to reduce or delay capital expenditures, sell certain assets, restructure or refinance its indebtedness, or seek additional equity capital.

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The Company's ability to make payments on its debt obligations will depend on future operating performance, which may be affected by conditions beyond the Company's control.

Under the \$175 million Credit Agreement, the Company has certain reporting requirements for the submission of its financial statements to the Lenders, as defined in the Credit Agreement. On April 30, 2004, the Company was granted an extension of the May 15, 2004, submission deadline for its results for the period ended March 31, 2004. The Company has until the extended deadline of May 28, 2004, to submit its first quarter 2004 financial statements to the Lenders. In the event the Company cannot meet the extended deadline, it must request

21

an additional extension from the Lenders. There is no guarantee that the Lenders will grant this request or that the Company will not be required to compensate the Lenders in order to receive an additional extension.

IN THE EVENT THE SETTLEMENT AGREEMENT WITH LLOYD'S FALLS THROUGH AND THE COMPANY IS UNSUCCESSFUL IN ITS LITIGATION AGAINST LLOYD'S, THE COMPANY WOULD BE REQUIRED TO RECORD A WRITE-OFF OF THE THEN-CURRENT RECEIVABLE RELATED TO LLOYD'S AND CERTAIN CLAIMS PRESENTLY PENDING AGAINST THE COMPANY WOULD BE UNINSURED.

On May 10, 2004, the Company reached a \$20 million settlement with Lloyd's. The settlement entails a \$20 million cash payment that is payable by Lloyd's 60 days from the settlement date or by July 9, 2004. Lloyd's also agreed to assume responsibility for the two remaining pending claims under the original errors and omissions ("E&O") policies. In the event the settlement agreement falls through and the litigation against Lloyd's proceeds, certain claims presently pending against the Company would not be covered by insurance (refer to "Note 8 -- Legal Matters" in the Company's Notes to Consolidated Financial Statements for more information). As of March 31, 2004, the Company had incurred approximately \$18.3 million of costs related to claims under Lloyd's that are classified as Lloyd's receivable in the Company's Consolidated Balance Sheet. As of March 31, 2004, approximately \$13.5 million of these costs had been paid by the Company. As of March 31, 2004, there are only two active remaining cases that are covered under the Lloyd's E&O policies. In the event the settlement agreement falls through and the litigation against Lloyd's proceeds, and if the Company is then unsuccessful in such litigation, the Company would be required to record a write-off of the then-current receivable related to Lloyd's. The write-off would have a minimal cash flow impact as the majority of the claims have been paid as incurred; however, any remaining claims which have not been resolved would be uninsured.

THE COMPANY IS REGULARLY INVOLVED IN LITIGATION, WHICH MAY EXPOSE THE COMPANY TO SIGNIFICANT LIABILITIES.

The Company is involved in litigation arising in the ordinary course of its business, which may expose it to loss contingencies. These matters include, but are not limited to, claims brought by former customers with respect to the operation of our business. The Company has also received written demands from customers and former customers that have not yet resulted in legal action.

The Company may not be able successfully to resolve such legal matters, or other legal matters that may arise in the future. In the event of an adverse outcome with respect to such legal matters or other legal matters in which the Company may become involved, its insurance coverage, errors and omissions coverage or otherwise, may not fully cover any damages assessed against the Company. Although the Company maintains all insurance coverage in amounts that it believes is sufficient for its business, such coverage may prove to be inadequate or may become unavailable on acceptable terms, if at all. A

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successful claim brought against the Company, which is uninsured or under-insured, could materially harm its business, results of operations or financial condition.

THE PHYSICIAN MANAGEMENT OUTSOURCING BUSINESS IS HIGHLY COMPETITIVE AND THE COMPANY'S INABILITY TO SUCCESSFULLY COMPETE FOR BUSINESS COULD ADVERSELY AFFECT THE COMPANY.

The physician business management outsourcing business, especially for revenue cycle management, is highly competitive. The Company competes with regional and local physician reimbursement organizations as well as physician groups that provide their own business management services in house. Successful competition within this industry is dependent on numerous industry and market conditions.

Potential industry and market changes that could adversely affect the Company's ability to compete for business management outsourcing services include an increase in the number of local, regional or national competitors providing comparable services and new alliances between healthcare providers and third-party payers in which healthcare providers are employed by such third-party payers.

22

THE BUSINESS OF PROVIDING SERVICES AND SOLUTIONS TO HOSPITALS FOR BOTH REVENUE CYCLE AND RESOURCE MANAGEMENT IS ALSO HIGHLY COMPETITIVE AND THE COMPANY'S INABILITY TO SUCCESSFULLY COMPETE FOR BUSINESS COULD ADVERSELY AFFECT THE COMPANY.

The business of providing services and solutions to hospitals for both revenue cycle and resource management is also highly competitive. The Company competes with traditional electronic data interface companies, outsourcing companies and specialized software vendors with national, regional and local bases. Some competitors have longer operating histories and greater financial, technical and marketing resources than that of the Company. The Company's successful competition within this industry is dependent on numerous industry and market conditions.

THE MARKETS FOR THE COMPANY'S SERVICES AND SOLUTIONS ARE CHARACTERIZED BY RAPIDLY CHANGING TECHNOLOGY, EVOLVING INDUSTRY STANDARDS AND FREQUENT NEW PRODUCT INTRODUCTIONS AND THE COMPANY'S INABILITY TO KEEP PACE COULD ADVERSELY AFFECT THE COMPANY.

The markets for the Company's services and solutions are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. The Company's ability to keep pace with changes in the healthcare industry may be dependent on a variety of factors, including its ability to enhance existing products and services; introduce new products and services quickly and cost effectively; achieve market acceptance for new products and services; and respond to emerging industry standards and other technological changes.

Competitors may develop competitive products that could adversely affect the Company's operating results. It is possible that the Company will be unsuccessful in refining, enhancing and developing our technology going forward. The costs associated with refining, enhancing and developing these systems may increase significantly in the future. Existing software and technology may become obsolete as a result of ongoing technological developments in the marketplace.

THE HEALTHCARE MARKETPLACE IS CHARACTERIZED BY CONSOLIDATION, WHICH MAY RESULT

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IN FEWER POTENTIAL CUSTOMERS FOR THE COMPANY'S SERVICES.

In general, consolidation initiatives in the healthcare marketplace may result in fewer potential customers for the Company's services. Some of these types of initiatives include employer initiatives such as creating purchasing cooperatives (GPOs); provider initiatives, such as risk-sharing among healthcare providers and managed care companies through capitated contracts; and integration among hospitals and physicians into comprehensive delivery systems.

Consolidation of management and billing services through integrated delivery systems may result in a decrease in demand for the Company's business management outsourcing services for particular physician practices.

THE HEALTHCARE INDUSTRY IS HIGHLY REGULATED, WHICH MAY INCREASE THE COMPANY'S COSTS OF OPERATION.

The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. Federal and state legislatures have periodically considered programs to reform or amend the U.S. healthcare system at both the federal and state level and to change healthcare financing and reimbursement systems, such as the Balanced Budget Act of 1997. 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. Current or future government regulations or healthcare reform measures may affect the Company's business. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in the Company's products and services.

Medical billing and collection activities are governed by numerous federal and state civil and criminal laws. Federal and state regulators use these laws to investigate healthcare providers and companies that provide billing and collection services. In connection with these laws, the Company may be subjected to federal or state government investigations and possible penalties may be imposed upon the Company, false claims actions may

23

have to be defended, private payers may file claims against the Company, and the Company may be excluded from Medicare, Medicaid or other government-funded healthcare programs.

In the past, the Company has been the subject of federal investigations, and it may become the subject of false claims litigation or additional investigations relating to its billing and collection activities. Any such proceeding or investigation could have a material adverse effect on the Company's business.

Under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), final rules have been published regarding standards for electronic transactions as well as standards for privacy and security of individually identifiable health information. The HIPAA rules set new or higher standards for the healthcare industry in handling healthcare transactions and information, with penalties for noncompliance. The Company has incurred and will continue to incur costs to comply with these rules. Although management believes that future compliance costs will not have a material impact on the Company's results of operations, compliance with these rules may prove to be more costly than is anticipated. Failure to comply with such rules may have a material adverse effect on the Company's business and may subject the Company to civil and criminal penalties as well as loss of customers.

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The Company relies upon third parties to provide data elements to process electronic medical claims in a HIPAA-compliant format. While the Company believes it will be fully and properly prepared to process electronic medical claims in a HIPAA-compliant format, there can be no assurance that third parties, including healthcare providers and payers, will likewise be prepared to supply all the data elements required to process electronic medical claims and make electronic remittance under HIPAA's standards. If payers reject electronic medical claims and such claims are processed manually rather than electronically, there could be a material adverse affect on the Company's business. The Company has made and expects to continue to make investments in product enhancements to support customer operations that are regulated by HIPAA. Responding to HIPAA's impact may require the Company to make investments in new products or charge higher prices.

Numerous federal and state civil and criminal laws govern the collection, use, storage and disclosure of health information for the purpose of safeguarding the privacy and security of such information. Federal or state governments may impose penalties for noncompliance, both criminal and civil. Persons who believe their health information has been misused or disclosed improperly may bring claims and payers who believe instances of noncompliance with privacy and security standards have occurred may bring administrative sanctions or remedial actions against offending parties.

Passage of HIPAA is part of a wider healthcare reform initiative. The Company expects that the debate on healthcare reform will continue. The Company also expects that the federal government as well as state governments will pass laws and issue regulations addressing healthcare issues and reimbursement of healthcare providers. The Company cannot predict whether the government will enact new legislation and regulations, and, if enacted, whether such new developments will affect its business.

THE TRADING PRICE OF THE COMPANY'S COMMON STOCK MAY BE VOLATILE AND NEGATIVELY AFFECT YOUR INVESTMENT.

The trading price of the Company's Common Stock may be volatile. The market for the Company's Common Stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated quarterly variations in operating results, changes in expectations of future financial performance or changes in estimates of securities analysts, government regulatory action, healthcare reform measures, client relationship developments and other factors, many of which are beyond the Company's control. Furthermore, the stock market in general and the market for software, healthcare business services and high technology companies in particular, has experienced volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of the Company's Common Stock, regardless of actual operating performance.

24

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATE SENSITIVITY

The Company invests excess cash in commercial paper, money market funds and other highly liquid short-term investments. Due to the limited amounts of these investments and their short-term nature, any fluctuation in the prevailing interest rates is not expected to have a material effect on the Company's financial statements.

The Company has the option of entering into loans based on LIBOR or base

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rates under the Term Loan B and the Revolving Credit Facility. As such, the Company could experience fluctuations in the interest rates under the Term Loan B, and, if the Company were to borrow amounts under the Revolving Credit Facility, the Company could experience fluctuations in interest rates under the Revolving Credit Facility. The Company had borrowings totaling \$118.8 million under the Term Loan B at March 31, 2004, and has not incurred any borrowings under the Revolving Credit Facility.

The Company has a process in place to monitor fluctuations in interest rates and could hedge against significant forecast changes in interest rates, if necessary.

### EXCHANGE RATE SENSITIVITY

The majority of the Company's revenue and expenses are denominated in U.S. dollars. As a result, the Company has not experienced any significant foreign exchange gains or losses to date. The Company conducts only limited business denominated in foreign currencies and does not expect material foreign exchange gains or losses in the future. The Company does not engage in any foreign exchange hedging activities.

### ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of March 31, 2004, and have concluded that these disclosure controls and procedures were operating effectively at the reasonable assurance level at March 31, 2004.

As a result of errors that led to the restatements of the Company's financial statements for the years ended December 31, 2001 and 2002 and the nine months ended September 30, 2003, the Company's independent auditors determined that a material weakness related to the Company's internal controls and procedures exists, which was reported to the Company in a letter from the auditors dated May 12, 2004. The Company's auditors reported to the Company that the errors that resulted in the restatements reflected in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on May 13, 2004, which generally related to the recording of accruals for sales commissions, vacation liabilities, legal expenses, health insurance, incentive compensation and other liabilities, were the result of not having appropriate controls over the estimation process associated with the establishment of accruals and reserves and the lack of adequate supervision of accounting personnel.

No change in the Company's internal control over financial reporting occurred during the first quarter of 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; however, the Company has caused additional procedures to be performed in connection with the preparation of its 2004 interim financial statements to mitigate the effects of the material weakness and to ensure that the financial statements in this quarterly report on Form 10-Q are presented in accordance with generally accepted accounting principles. See "Note 3 - Additional Procedures" in the Company's Notes to Consolidated Financial Statements on page 6. These additional procedures were performed by external accounting professionals, who were not associated with the Company's independent registered public accounting firm. The Company considers these additional procedures to be part of its disclosure controls and procedures for the first quarter of 2004, but does not consider them to be changes to the Company's internal control over financial reporting because they were being performed by external advisors. The Company is in the process of implementing improvements to its internal control over financial reporting to address the identified material weakness, including implementing additional controls and procedures related to the review of accruals and reserves, changing reporting relationships for

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divisional accounting personnel, and adding new accounting

25

personnel. The Company expects that such improvements will be fully implemented by the end of the third quarter of 2004.

The Company also expects that, in connection with the efforts to comply in 2004 with Section 404(a) of the Sarbanes-Oxley Act, it will implement changes in internal controls and procedures and that these changes will be made on an ongoing basis.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, are detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective system, misstatements due to error or fraud may occur and not be detected. The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or internal controls over financial reporting will necessarily prevent all errors and all fraud.

26

### PART II: OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is included in "Note 8 -- Legal Matters" of Notes to Consolidated Financial Statements in Item 1 of Part I.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (A) Exhibits

EXHIBIT NUMBER -----	DOCUMENT -----
2.1	-- Asset Purchase Agreement dated as of June 18, 2003, among Misys Hospital Systems, Inc., Misys Healthcare Systems (International) Limited, Misys plc, Registrant, and PST Products, LLC., together with the First Amendment thereto dated as of June 28, 2003 (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K filed on August 5, 2003.)
3.1	-- Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K for the year ended December 31, 1999).
3.2	-- Restated By-laws of Registrant, as amended (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K for the year ended December 31, 2003).
4.1	-- Settlement Agreement dated as of June 24, 1999, by and among Lori T. Caudill, William J. DeZonia, Carol T. Shumaker,



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Alyson T. Stinson, James F. Thacker, James F. Thacker Retained Annuity Trust, Paulanne H. Thacker Retained Annuity Trust and Borrower (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

- 4.2 -- Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company (including form of rights certificates) (incorporated by reference to Exhibit 4 to Current Report on Form 8-K filed on February 12, 1999).
- 4.3 -- First Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of May 4, 2000 (incorporated by reference to Exhibit 4.4 to Quarterly Report of Form 10-Q for the quarter ended March 31, 2000).
- 4.4 -- Second Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of December 6, 2001, to be effective as of March 6, 2002 (incorporated by reference to Exhibit 4.12 to Annual Report on Form 10-K for the year ended December 31, 2001).
- 4.5 -- Third Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of March 10, 2003 (incorporated by reference to Exhibit 4.13 to Annual Report on Form 10-K for the year ended December 31, 2002).
- 31.1 -- Certification of Chief Executive Officer pursuant Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 -- Certification of Chief Financial Officer pursuant Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 -- Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 -- Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

27

(B) Reports on Form 8-K

The Company filed or furnished the following reports on Form 8-K during the quarter ended March 31, 2004:

ITEM REPORTED	FINANCIAL STATEMENTS FILED	DATE OF REPORT	DATE FILED OR FURNISHED
Press release dated February 3, 2004, announcing results of operations for the quarterly period ended December 31, 2003.....	No	February 3, 2004	February 3, 2004
Press release dated March 16, 2004, announcing 2003 Annual Report on Form 10-K cannot be completed by the accelerated deadline of March 15, 2004.....	No	March 16, 2004	March 16, 2004

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Press release dated March 29, 2004, announcing 2003 Annual Report on Form 10-K cannot be completed by the extended deadline of March 30, 2004.....

No

March 29, 2004

March 29, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized.

PER-SE TECHNOLOGIES, INC. (Registrant)

By: /s/ CHRIS E. PERKINS

Chris E. Perkins Executive Vice President and Chief Financial Officer (Principal Accounting Officer)

Date: March 4, 2005

INDEX TO EXHIBITS

Table with 2 columns: EXHIBIT NUMBER and DOCUMENT. Lists exhibits 2.1 through 4.2 with descriptions of agreements and certificates.

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- on February 12, 1999).
- 4.3 -- First Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of May 4, 2000 (incorporated by reference to Exhibit 4.4 to Quarterly Report of Form 10-Q for the quarter ended March 31, 2000).
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