PROXYMED INC /FT LAUDERDALE/
Form S-1
January 27, 2006

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As filed with the Securities and Exchange Commission on January 27, 2006
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
PROXYMED, INC.
(Exact name of Registrant as specified in its charter)

Florida	**7374**	**65-0202059**
(State or other jurisdiction of incorporation or organization)	*Primary Standard Industrial Classification Code Number*	*(I.R.S. Employer Identification No.)*

1854 Shackleford Court, Suite 200
Norcross, Georgia 30093
(770) 806-9918
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)
Douglas J. O Dowd
Chief Financial Officer
ProxyMed, Inc.
1854 Shackleford Court, Suite 200
Norcross, Georgia 30093
(770) 806-9918
(Name, address, including zip code, and telephone number, including area code, of agent for service)
Copies to:
Rodney H. Bell, Esq.
Holland & Knight LLP
701 Brickell Avenue, Suite 3000
Miami, Florida 33131
(305) 374-8500

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock $0.001 par value per share	1,231,322	$ 3.84	$ 4,728,276.48	$ 506.00

(1) Pursuant to Rule 416 under the Securities Act of 1933, these shares include an indeterminate number of shares of common stock issuable as a result of stock splits, stock dividends, recapitalizations or similar events.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act on the basis of the average of the high and low prices on the NASDAQ National Market on January 23, 2006.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

(Subject to Completion, dated January __, 2006)

1,231,322 Shares

Common Stock

This prospectus relates to the proposed sale from time to time of up to an aggregate of 1,231,322 shares of our common stock by the selling shareholders named under the caption Selling Shareholders in this prospectus and any amendment to this prospectus, referred to as the Offering. The Selling Shareholders may sell the shares held for their own account or the shares may be sold by donees, transferees, pledgees or other successors in interest that receive such shares from the Selling Shareholders as a gift or other non-sale related transfer. We issued these shares of our Common Stock or Promissory notes convertible into Common Stock to the Selling Shareholders in certain privately negotiated transactions.

You should read this prospectus and any prospectus supplement carefully before you invest. We will not receive any proceeds from the sale of shares of our common stock by the Selling Shareholders.

Our common stock is listed on the Nasdaq National Market under the symbol PILL. On January 23, 2006, the last reported sale price for our common stock on the Nasdaq National Market was $3.84 per share.

Our offices are located at 1854 Shackleford Court, Suite 200, Norcross, Georgia 30093, and our telephone number is (770) 806-9918.

For additional information on the methods of sale that may be used by the Selling Shareholders, see the section entitled Plan of Distribution on page 72. We will not receive any of the proceeds from the sale of these shares. We will bear the costs relating to the registration of these shares.

Investing in our Common Stock involves certain material risks. See Risk Factors beginning on page 5.

The Securities and Exchange Commission may take the view that, under certain circumstances, the Selling Shareholders and any broker-dealers or agents that participate with the Selling Shareholders in the distribution of the shares may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended. Commissions, discounts or concessions received by any such broker-dealer or agent may be deemed to be underwriting commissions under the Securities Act.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

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PROSPECTUS SUMMARY

ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions

We are an electronic healthcare transaction processing services company providing connectivity, cost-containment services and related value-added products to physician offices, payers, medical laboratories, pharmacies and other healthcare institutions. Our broad existing connectivity to payers and providers positions us as the second largest independent medical claims clearinghouse in the industry. In December 2005, we began doing business under a new operating name, MedAvant Healthcare Solutions. Our newly launched corporate identity unites all business units and employees under one brand identity, MedAvant, and is one of several outcomes resulting from a strategic analysis we completed in the third quarter of 2005 following the acquisition of seven companies between 1997 and 2004.

We maintain an open electronic network for electronic transactions, with no equity ownership in businesses engaged in the front-end (i.e., physician practice management software system vendors and other physician desk top vendors) or in the back-end (i.e., payers, laboratories and pharmacies). Our business strategy is to leverage our leadership position in connectivity services in order to establish us as the premier provider of automated financial, clinical, cost containment and business outsourcing solutions, and administrative transaction services primarily between healthcare providers and payers, clinical laboratories and pharmacies. With our neutral position, we believe that we can better attract both front-end and back-end partners who may be more comfortable doing business with a non-competitive partner.

Unless the context otherwise requires, all references to we, our, us, Company, Proxymed or MedAvant ref ProxyMed, Inc., d/b/a MedAvant Healthcare Solutions, and its subsidiaries.

Principal Executive Offices

Our principal executive offices are located at 1854 Shackleford Court, Suite 200, Norcross, Georgia 30093, and our telephone number is (770) 806-9918. Our web page, describing us, our technology, products, strategic alliances and news releases can be visited at: www.medavanthealth.com. The web site is not a part of this prospectus.

The Offering

Shares of common stock offered by us	None.
Shares of common stock offered by the Selling Shareholders	1,231,322 shares.
Use of proceeds	We will not receive any proceeds from the sale of the shares of our Common Stock by the Selling Shareholders
Our Nasdaq Stock Market symbol	PILL

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RISK FACTORS

IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, INCLUDING THE INFORMATION IN OUR REPORTS AND OTHER DOCUMENTS ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION OR INCORPORATED HEREIN BY REFERENCE, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS IN EVALUATING US AND OUR BUSINESS BEFORE PURCHASING THE SECURITIES OFFERED IN THIS PROSPECTUS.

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our operations. If any of the following risks were to materialize, our business, financial condition or results of operations could be materially adversely affected. Were that to occur, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Related to Acquisitions

Our business will suffer if we fail to successfully integrate into our business the customers, products, and technology of the companies we acquire.

We have undertaken several acquisitions in the past few years as part of a strategy to expand our business, and we may continue in the future to acquire businesses, assets, services, products, and technologies from other persons or entities. The anticipated efficiencies and other benefits to be derived from these acquisitions and future acquisitions may not be realized if we are unable to successfully integrate the acquired businesses into our operations, including customers, personnel, product lines, and technology. We are in the process of integrating into our operations, the customers, products, personnel and technology of our prior acquisitions, including MedUnite, Inc. (MedUnite) and PlanVista Corporation (PlanVista). There is no guarantee that we will be able to successfully integrate our past acquisitions, including MedUnite and PlanVista, or any future acquired businesses into our operations. Integration of acquired businesses can be expensive, time consuming, and may strain our resources. Integration may divert management s focus and attention from other business concerns and expose us to unforeseen liabilities and risks. We may also lose key employees, strategic partners, and customers as a result of our inability to successfully integrate in a timely manner or as a result of relationships the acquired businesses may have with our competitors or the competitors of our customers and strategic partners. Some challenges that we face in successfully integrating past and future acquired businesses into our operations include:

- conflicts or potential conflicts with customers, suppliers, and strategic partners;
- integration of platforms, product lines, networks, and other technology;
- the migration of new customers and products to our existing network;
- the ability to cross-sell products and services to our new and existing customer base;
- retention of key personnel;
- consolidation of accounting and administrative systems and functions;
- coordinating new product and process development;
- increasing the scope, geographic diversity and complexity of operations;
- difficulties in consolidating facilities and transferring processes and know-how; and
- other difficulties in the assimilation of acquired operations, technologies or products.

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Businesses we acquire may have undisclosed liabilities or contingent liabilities that are indeterminable and which may have a negative impact on our results of operations and require unanticipated expense.

In pursuing our acquisition strategy, our investigations of the acquisition candidates may fail to discover certain undisclosed liabilities of the acquisition candidates, or may determine that certain contingent liabilities are indeterminable. If we acquire a company having undisclosed liabilities, as a successor owner we may be responsible for such undisclosed liabilities. If we acquire a company with liabilities that are indeterminable at the time of the acquisition, we may be required to make subsequent payments that could have a material adverse effect on our business. PlanVista did not indemnify us in connection with the merger between the Company and PlanVista in March 2004. In connection with the MedUnite acquisition, we have only limited indemnification rights that may not be sufficient in amount or scope to offset losses resulting from unknown and undisclosed liabilities. Furthermore, the introduction of new products and services from acquired companies may have a greater risk of undetected or unknown errors, bugs, or liabilities than our historic products.

We may lose customers as a result of acquisitions.

Acquisitions may cause disruptions in our business or the business of the acquired company, which could have material adverse effects on our business and operations.

In addition, our customers, licensors and other business partners, in response to an acquisition or merger, may adversely change or terminate their relationships with us, which could have a material adverse effect on us. Certain of our current or potential customers may cancel or defer requests for our services. In addition, our customers may expect preferential pricing as a result of an acquisition or merger. An acquisition or merger may also adversely affect our ability to attract new customers.

Risks Related to Our Industry

Government regulation and new legislation may have a negative impact on our business and results of operations.

The healthcare industry is highly regulated and is subject to extensive and frequently changing federal and state healthcare laws. Several state and federal laws, including without limitation, the Health Insurance Portability and Accountability Act of 1996, commonly referred to as HIPAA, govern the collection, dissemination, use and confidentiality of patient healthcare information. Although we believe we are in compliance with applicable privacy regulations, the privacy regulations in particular are broad in scope, and will require constant vigilance for ongoing compliance. We cannot guarantee that we will be in compliance in the future.

HIPAA also mandates the use of standard transactions, standard provider identifiers, security requirements and other provisions for electronic healthcare claims transactions. However, the Centers for Medicare and Medicaid Services, commonly referred to as CMS, announced that it would not take enforcement action against covered entities, such as us and our physician and payer customers, that continue to process non-compliant transactions after October 16, 2003 so long as we are making good faith efforts to become compliant and are operating under the contingency planning guidelines provided by CMS. Approximately 98% of our outbound transactions sent to payers are in a HIPAA-compliant format. However, in contrast, approximately 85% of our inbound transactions from our provider customers are being received in a legacy format, and are being translated by us on behalf of these customers.

Our contracts with our customers, strategic partners, providers, payers and other healthcare entities mandate or will mandate that our products and services be HIPAA compliant. If our products and services are not in compliance with HIPAA or any other alternative guidelines issued by the CMS on an ongoing basis, our customers, strategic partners, and other healthcare providers with whom we contract may terminate their contracts with us or sue us for breach of contract. Additionally, our revenues may be reduced as some of our non-compliant payer partners may be forced to accept paper-based transactions for which we may not be the recipient for processing. We may be subject to penalties for non-compliance by federal and state governments, and patients who believe that their confidential health information has been misused or improperly disclosed may have certain causes of actions under applicable state privacy or HIPAA-like laws against us, our partners or customers.

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Although we believe that we are in compliance with the HIPAA standards for transaction formats, provider identifiers, and security, there is no assurance that we will be able to maintain compliance. Any failure to be in compliance could result in regulatory penalties being assessed against us, and weaken demand for our affected services.

There are a significant number of state initiatives regarding healthcare services. If we are unable to comply with the standards set by the states in which we operate, we or our operations could be harmed.

In our Transaction Services segment, we contract with multiple Preferred Provider Organization networks, referred to as PPO s. These PPO networks are typically governed by the laws and regulations of the states in which they operate, in addition to federal Employee Retirement Income Security Act legislation, referred to as ERISA. Over the last few years, a number of states have been actively changing their laws and regulations governing PPOs, and this trend may continue. It is difficult to determine when ERISA preemption of state PPO law applies. Our failure to comply with existing state laws or any new laws in the future could jeopardize our ability to continue business in the affected states, which would reduce our revenues. In addition, compliance with additional regulation could be expensive and reduce our income.

We are dependent on the growth of the Internet and electronic healthcare information markets.

Many of our products and services are geared toward the Internet and electronic healthcare information markets. The perceived difficulty of securely transmitting confidential information over the Internet has been a significant barrier to conducting e-commerce and engaging in sensitive communications over the Internet. Our strategy relies in part on the use of the Internet to transmit confidential information. We believe that any well-publicized compromise of Internet security may deter people from using the Internet to conduct transactions that involve transmitting confidential healthcare information and this may result in significantly lower revenues and operating income.

Risks Related to Our Business

General:

Recent management changes may disrupt our operations, and we may not be able to retain key personnel or replace them when they leave.

Since May 2005, we have experienced a number of changes in our senior management, including changes in our Chief Executive Officer, Chief Financial Officer, and President and Chief Operating Officer. John G. Lettko assumed the position of Chief Executive Officer effective May 10, 2005. Douglas O Dowd became our interim Chief Financial Officer effective August 16, 2005, and was subsequently appointed as Chief Financial Officer in October 2005. Mr. Lettko has also been appointed President, and Mr. O'Dowd was appointed Treasurer, each as of October 27, 2005. On June 9, 2005, we announced the resignation of Nancy J. Ham as President and Chief Operating Officer. Ms. Ham has not been replaced. These senior management changes could disrupt our ability to manage our business as we transition to and integrate a new management team, and any such disruption could adversely affect our operations, growth, financial condition and results of operations.

Additionally, although we have entered into employment agreements with many of our senior executives, the loss of any of their services could cause our business to suffer. Our success is also dependent upon our ability to hire and retain qualified operations, development and other personnel. Competition for qualified personnel in the healthcare information services industry is intense, and we cannot assure that we will be able to hire or retain the personnel necessary for our planned operations.

We may not prevail in ongoing litigation and may be required to pay substantial damages.

Our business entities are party to various legal actions as either plaintiff or defendant in the ordinary course of business. We cannot assure the ultimate outcome of these actions. If we are not successful in these actions, we could be subject to monetary damages that could reduce our cash flows and results of operations. In addition, we will continue to incur additional legal costs in connection with pursuing and defending such actions. See footnotes 18 and 22 of our consolidated financial statements concerning ongoing litigation matters.

We have senior and subordinated debt that matures in December 2008 and 2010.

We have senior and subordinated debt that matures in December 2008 and 2010. We expect to refinance the senior debt by obtaining a new senior line of credit or retire the debt on or before maturity. There can be no assurance that any additional funding will be available to us, or if available, that it will be available on acceptable terms. If we are unable to obtain additional funding to repay or refinance our senior and subordinated debt prior to maturity, the lenders could foreclose and take certain other action against us, the effect on our operations and stock price could be significantly negative and we may be unable to continue as a going concern.

Transaction Services Segment:

Changes that reduce payer compensation for electronic claims may reduce our revenue and margins.

Several payers recently terminated existing arrangements under which they paid us for electronic claims we submitted to them on behalf of our submitter customers. If we are unable to shift the cost of these claims to the submitting providers and vendors, or to enter into new payment arrangements with the payers for the affected claim volume, then our revenue will be reduced.

As electronic transaction processing penetrates the healthcare industry more extensively, we will face increasing pressure to reduce our prices which may cause us to no longer be competitive.

As electronic transaction processing extensively penetrates the healthcare market or becomes highly standardized, competition among electronic transaction processors will focus increasingly on pricing. This competition is putting intense pressure on us to reduce our pricing in order to retain market share. If we are unable to reduce our costs sufficiently to offset declines in our prices, or if we are unable to introduce new, innovative service offerings with higher margins, our results of operations could decline.

Consolidation in the healthcare industry may give our customers greater bargaining power and lead us to reduce our prices.

Many healthcare industry participants are consolidating to create integrated healthcare delivery systems with greater market power. As provider networks and managed care organizations consolidate, competition to provide products and services such as those we provide will become more intense, and the importance of establishing and maintaining relationships with key industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. If we are forced to reduce prices, our margins will decrease, unless we are able to achieve corresponding reductions in expenses.

Our business will suffer if we are unable to successfully integrate acquired IT platforms or if our existing *Phoenix*SM platform is unstable or unable to accommodate our clients needs.

Our business is dependent on the successful integration of operating platforms we have designed and acquired to provide a high quality service at a competitive cost to our customers. To the extent that we are unable to consolidate those acquired platforms without significant disruption to our customers, our business or our operations could be harmed. Additionally, if our *Phoenix*SM platform that is the backbone of our EDI business, is unstable or does not provide satisfactory outcomes to a significant number of clients, our business and our operations will be harmed.

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Our business and future success may depend on our ability to cross-sell our products and services.

Our ability to generate revenue and growth partly depends on our ability to cross-sell our products and services to our existing customers and new customers resulting from acquisitions. Our ability to successfully cross-sell our products and services is one of the most significant factors influencing our growth. We may not be successful in cross-selling our products and services, and our failure in this area would likely have an adverse effect on our business.

We depend on connections to insurance companies and other payers, and if we lose these connections, our service offerings would be limited and less desirable to healthcare providers.

Our business depends upon a substantial number of payers, such as insurance companies, Medicare and Medicaid agencies, to which we have electronic connections. These connections may either be made directly or through a clearinghouse. We have attempted to enter into suitable contractual relationships to ensure continued payer connectivity; however, we cannot assure that we will be able to maintain our links with all these payers on terms satisfactory to us. In addition, we cannot assure that we will be able to develop new connections, either directly or through clearinghouses, on satisfactory terms. Lastly, some third-party payers provide systems directly to healthcare providers, bypassing us and other third-party processors. Our failure to maintain existing connections with payers and clearinghouses or to develop new connections as circumstances warrant, or an increase in the utilization of direct links between providers and payers, could cause our electronic transaction processing system to be less desirable to healthcare participants, which would slow down or reduce the number of transactions that we process and for which we are paid.

We have important business relationships with other companies to market and sell some of our clinical and financial products and services. If these companies terminate their relationships with us, or are less successful in the future, we will need to add this emphasis internally, which may divert our efforts and resources from other projects.

For the marketing and sale of some of our products and services, we entered into important business relationships with physician office management information system vendors, with electronic medical record vendors, and with other distribution partners. These business relationships, which have required and may continue to require significant commitments of effort and resources, are an important part of our distribution strategy and generate substantial recurring revenue. Most of these relationships are on a non-exclusive basis, and we cannot assure that our electronic commerce partners and other strategic partners, most of whom have significantly greater financial and marketing resources than we do, will not develop and market products and services in competition with us in the future or will not otherwise discontinue their relationship with us. Also, our arrangements with some of our partners involve negotiated payments to the partners based on percentages of revenues generated by the partners. If the payments prove to be too high, we may be unable to realize acceptable margins, but if the payments prove to be too low, the partners may not be motivated to produce a sufficient volume of revenues. The success of our important business relationships will depend in part upon our partners own competitive, marketing and strategic considerations, including the relative advantages of alternative products being developed and marketed by such partners. If any such partners are unsuccessful in marketing our products, we will need to place added emphasis on these aspects of our business internally, which may divert our planned efforts and resources from other projects.

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A significant amount of our revenues in our Transaction Services segment is from one party. Loss of this relationship may adversely affect our profitability.

NDCHealth Corporation, referred to as NDCHealth, represents 8.1% and 7.9% of our consolidated revenues for the nine months ended September 30, 2005 and for the year ended December 31, 2004, respectively and 9.6% and 9.8% of our Transaction Services revenues for the same periods. The relationship with NDCHealth is an important one and provides us with a base of physicians who utilize our services. Loss of this relationship without any ability to contact these physicians directly may significantly reduce our revenues and operating profits.

The adoption of electronic processing of clinical transactions in the healthcare industry is proceeding slowly; thus, the future of our business is uncertain.

Our strategy anticipates that electronic processing of clinical healthcare transactions, including transactions involving prescriptions and laboratory results, will become more widespread and that providers and third-party institutions increasingly will use electronic transaction processing networks for the processing and transmission of data. The rate at which providers adopt the use of electronic transmission of clinical healthcare transactions (and, in particular, the use of the Internet to transmit them) continues to be slow, and the continued or accelerated conversion from paper-based transaction processing to electronic transaction processing in the healthcare industry, using proprietary healthcare management systems or the Internet, may not occur.

An error by us in the process of providing clinical connectivity or transmitting prescription and laboratory data could result in substantial injury to a patient, and our liability insurance may not be adequate in a catastrophic situation.

Our business exposes us to potential liability risks that are unavoidably part of being in the healthcare electronic transaction processing industry. Since some of our products and services relate to the prescribing and refilling of drugs and the transmission of medical laboratory results, an error by any party in the process could result in substantial injury to a patient. As a result, our liability risks are significant.

Our insurance may be insufficient to cover potential claims arising out of our current or proposed operations, and sufficient coverage may not be available in the future at a reasonable cost. A partially or completely uninsured claim against us, if successful and of sufficient magnitude, would have significant adverse financial consequences. Our inability to obtain insurance of the type and in the amounts we require could generally impair our ability to market our products and services.

Our businesses have many competitors.

We face competition from many healthcare information systems companies and other technology companies. Many of our competitors are significantly larger and have greater financial resources than we do and have established reputations for success in implementing healthcare electronic transaction processing systems. Other companies have targeted this industry for growth, including the development of new technologies utilizing Internet-based systems. We may not be able to compete successfully with these companies, and these or other competitors may commercialize products, services or technologies that render our products, services or technologies obsolete or less marketable.

Our PPO and provider arrangements provide no guarantee of long-term relationships.

The majority of our contracts with PPOs and providers can be terminated without cause, generally on 90 days notice. For our Transaction Services business, the loss of any one provider may not be material, but if large numbers of providers chose to terminate their contracts, our revenues and net income could be materially adversely affected. The termination of any PPO contract would render us unable to provide our customers with network access to that PPO, and therefore would adversely affect our ability to reprice claims and derive revenues. Furthermore, we rely on our participating PPOs and provider groups to ensure participation by their providers. Our PPO contracts generally do not provide us with a direct recourse against a participating provider that chooses not to honor its obligation to provide a discount, or chooses to discontinue its participation in our National Preferred Provider

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Network, referred to as NPPN. Termination of provider contracts or other changes in the manner in which these parties conduct their business are outside of our control and could negatively affect our ability to provide services to our customers.

Some providers have historically been reluctant to participate in secondary networks.

Our percentage of savings business model sometimes allows a payer to utilize our network discounts in circumstances where our NPPN is not the payer s primary network. In these circumstances, NPPN participating providers are not traditionally given the same assurances of patient flow that they receive when they are part of a primary network. Historically, some providers have been reluctant to participate in network arrangements that do not provide a high degree of visibility to patients. Although we think that the steerage provided by our payers as a whole and the speed and efficiency with which we provide claims repricing services makes NPPN affiliation an attractive option for providers, our business model could discourage providers from commencing or maintaining an affiliation with NPPN.

Our cost containment accounts receivable are subject to adjustment.

We generally record revenue for our services when the services are performed, less amounts reserved for claim reversals and bad debts. The estimates for claim reversals and bad debts are based on judgment and historical experience. Many of the claims are not fully adjudicated for over 90 days. To the extent that actual claim reversals and bad debts associated with our business exceed the amounts reserved, such difference could have a material adverse impact on our results of operations and cash flows.

Laboratory Services Segment:

Our Laboratory Services Communications Segment has a high customer concentration.

We currently have over 50% of our sales to one customer. If this customer chooses to do business with a competitor or chose to handle the business on their own, the loss of the associated revenue could substantially harm our business.

Risks Related to Our Technology

Evolving industry standards and rapid technological changes could result in our products becoming obsolete or no longer in demand.

Rapidly changing technology, evolving industry standards and the frequent introduction of new and enhanced Internet-based services characterize the market for our products and services. Our success will depend upon our ability to enhance our existing services, introduce new products and services on a timely and cost-effective basis to meet evolving customer requirements, achieve market acceptance for new products or services and respond to emerging industry standards and other technological changes. We may not be able to respond effectively to technological changes or new industry standards. Moreover, we cannot assure that other companies will not develop competitive products or services, or that any such competitive products or services will not cause our products and services to become obsolete or no longer in demand.

We depend on uninterrupted computer access for our customers; any prolonged interruptions in our operations could cause our customers to seek alternative providers of our services.

Our success is dependent on our ability to deliver high-quality, uninterrupted computer networking and hosting, requiring us to protect our computer equipment and the information stored in servers against damage by fire, natural disaster, power loss, telecommunications failures, unauthorized intrusion and other catastrophic events. We have moved many of our production computer networks to a secure, third-party co-location site located in Atlanta, Georgia. This site has back-up site capability and a program to manage technology to reduce risks in the event of a disaster, including periodic back-ups of our computer programs and data. We expect to fully expand and utilize redundant processing by the end of 2006.

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While we still continue to operate production networks in our Norcross facility, any damage or failure resulting in prolonged interruptions in our operations could cause our customers to seek alternative providers of our services. In particular, a system failure, if prolonged, could result in reduced revenues, loss of customers and damage to our reputation, any of which could cause our business to materially suffer. While we carry property and business interruption insurance to cover operations, the coverage may not be adequate to compensate us for losses that may occur.

Computer network systems like ours could suffer security and privacy breaches that could harm our customers and us.

We currently operate servers and maintain connectivity from multiple facilities. Despite our implementation of standard network security measures, our infrastructure may be vulnerable to computer viruses, break-ins and similar disruptive problems caused by customers or other users. Computer viruses, break-ins or other security problems could lead to interruption, delays or cessation in service to our customers. These problems could also potentially jeopardize the security of confidential information stored in the computer systems of our customers, which may deter potential customers from doing business with us and give rise to possible liability to users whose security or privacy has been infringed. The security and privacy concerns of existing and potential customers may inhibit the growth of the healthcare information services industry in general, and our customer base and business in particular. A significant security breach could result in loss of customers, loss of revenues, damage to our reputation, direct damages, costs of repair and detection and other unplanned expenses. While we carry professional liability insurance to cover such breaches, the coverage may not be adequate to compensate us for losses that may occur.

The protection of our intellectual property requires substantial resources.

We rely largely on our own security systems and confidentiality procedures, and employee nondisclosure agreements for certain employees, to maintain the confidentiality and security of our proprietary information, including our trade secrets and internally developed computer applications. If third parties gain unauthorized access to our information systems, or if anyone misappropriates our proprietary information, this may have a material adverse effect on our business and results of operations. We are in the process of acquiring patent protection for our Phoenix^{SM} technology and other proprietary technology, however we have not traditionally sought patent protection for our technology. Trade secrets laws offer limited protection against third party development of competitive products or services. Because we lack the protection of registered copyrights for our internally-developed software and software applications, we may be vulnerable to misappropriation of our proprietary technology by third parties or competitors. The failure to adequately protect our technology could adversely affect our business.

We may be subject to infringement claims.

As our competitors healthcare information systems increase in complexity and overall capabilities, and the functionality of these systems further overlap, we could be subject to claims that our technology infringes on the proprietary rights of third parties. These claims, even if without merit, could subject us to costly litigation and could require the resources, time, and attention of our technical, legal, and management personnel to defend. The failure to develop non-infringing technology or trade names, or to obtain a license on commercially reasonable terms, could adversely affect our operations and revenues.

We are currently involved in a trademark dispute with Metavante Corporation that may limit our ability to use our new name.

We have recently been sued by Metavante Corporation over our use of the tradename MedAvant. We are defending this case vigorously. If we are unsuccessful, we may incur damages or have to limit or curtail further use of the MedAvant mark. Loss of the mark would require us to incur the cost to develop and implement a new mark, and may reduce our ability to compete effectively in the marketplace, and reduce our revenue.

If our ability to expand our network infrastructure is constrained, we could lose customers and that loss could adversely affect our operating results.

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We must continue to expand and adapt our network and technology infrastructure to accommodate additional users, increased transaction volumes, and changing customer requirements. We may not be able to accurately project the rate or timing of increases, if any, in the volume of transactions we process, reprice or otherwise service or be able to expand and upgrade our systems and infrastructure to accommodate such increases. We may be unable to expand or adapt our network infrastructure to meet additional demand or our customers changing needs on a timely basis, at a commercially reasonable cost or at all. Our current information systems, procedures and controls may not continue to support our operations while maintaining acceptable overall performance and may hinder our ability to exploit the market for healthcare applications and services. Service lapses could cause our users to switch to the services of our competitors.

Risks Related to Our Stock

We incurred losses in 2003, 2004 and 2005. We may not be able to generate positive earnings in the future and this could have a detrimental effect on the market price of our stock.

In the last two years we have incurred substantial losses, including losses of $103.5 million for the nine months ended September 30, 2005, $3.8 million for the fiscal year ended December 31, 2004, and $5.0 million in the fiscal year ended December 31, 2003. As of September 30, 2005, December 31, 2004 and December 31, 2003, we had an accumulated deficit of $207.5 million, $104.1 million and $100.3 million, respectively. Continued shortfalls could deplete our cash reserves, making it difficult for us to obtain credit at a favorable rate, or continue investing in infrastructure we need to compete in the future. Continued shortfalls may also cause our share price to decline and make us a target for acquisitions.

An inability to maintain effective internal controls over financial reporting as required by the Sarbanes-Oxley Act of 2002 could have an adverse affect on our stock price.

Our certification that we have sufficient internal controls in place today is no guarantee that we will maintain those controls in the future or that those controls will be effective in ensuring the accuracy of the financial reports. An inability to maintain effective controls or our receiving an adverse or qualified opinion on the effectiveness of our internal controls from our independent registered public accounting firm could have a negative impact on our stock price.

We may issue additional shares that could adversely affect the market price of our common stock.

Certain events over which you have no control could result in the issuance of additional shares of our common stock which would dilute your ownership percentage in the Company and could adversely affect the market price of our common stock. We may issue additional shares of common stock or preferred stock for many reasons including:

- to raise additional capital or finance acquisitions;

- upon the exercise or conversion or an exchange of outstanding options, warrants and shares of convertible preferred stock; or

- in lieu of cash payment of dividends.

In addition, the number of shares of common stock that we are required to issue in connection with our outstanding warrants may increase if certain anti-dilution events occur (such as, certain issuances of common stock, options and convertible securities).

The trading price of our common stock may be volatile.

The stock market, including the Nasdaq National Market, on which the shares of our common stock are listed, has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market price of our common stock, like the stock prices of many publicly traded companies in the healthcare industry, has been and may continue to be highly volatile.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, principally in the sections entitled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. Generally, you can identify these statements because they include words and phrases like expect, estimate, anticipate, predict, believe, plan, should, intend and similar expressions and variations. These statements are only predictions. Althoug we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which are out of our control or cannot be foreseen. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face that are described in the previous section entitled Risk Factors and elsewhere in this prospectus.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are unable to predict accurately or over which we have no control. The risk factors listed on the previous pages, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the previous risk factors and elsewhere in this prospectus could negatively affect our business, operating results, financial condition and stock price.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of shares by the Selling Shareholders. All net proceeds from the sale of the Common Stock covered by this prospectus will go to the Selling Shareholders. See Selling Shareholders and Plan of Distribution described below.

DIVIDEND POLICY

We have never paid any dividends on our Common Stock; however, in prior years, we have paid dividends on certain series of our Preferred Stock in cash and/or in shares of our Common Stock pursuant to the terms of the Articles of Incorporation, as amended. We intend to retain any earnings for use in our operations and the expansion of our business, and do not anticipate paying any dividends on the Common or Preferred Stock in the foreseeable future. The payment of dividends on our Common Stock is within the discretion of our Board of Directors, subject to our Articles of Incorporation, as amended. Any future decision with respect to dividends on Common Stock will depend on future earnings, future capital needs and our operating and financial condition, among other factors.

MARKET PRICE INFORMATION

Our common stock is quoted on the Nasdaq Stock Market. The following table shows the high and low sales prices for our Common Stock for the periods indicated, as reported on the Nasdaq Stock Market.

		High	Low
2005:			
	First Quarter	$10.74	$ 7.81
	Second Quarter	$ 8.69	$ 5.75
	Third Quarter	$ 7.97	$ 5.01
	Fourth Quarter	$ 5.34	$ 3.42
2004:			
	First Quarter	$20.00	$16.65
	Second Quarter	$20.10	$16.19
	Third Quarter	$17.20	$ 8.77
	Fourth Quarter	$11.38	$ 6.78
2003:			
	First Quarter	$11.45	$ 7.25
	Second Quarter	$13.21	$ 7.08
	Third Quarter	$16.40	$12.01
	Fourth Quarter	$17.64	$14.55

As of January 23, 2006, the last reported sales price of our Common Stock on the Nasdaq Stock Market was $3.84 per share, and the number of holders of record was approximately 335. We currently intend to retain any earnings to fund the development and growth of our business.

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SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial information as of and for each of the five years leading up to the period ended December 31, 2004 and the unaudited nine months ended September 30, 2004 and 2005. The selected consolidated financial data set forth below for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 are derived from our consolidated audited financial statements. The unaudited selected consolidated financial data set forth below for the nine months ended September 30, 2004 and 2005 are derived from unaudited financial statements. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the entire year ended December 31, 2005

The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related notes.

	Year Ended December 31,					Nine Months Ended September 30, (Unaudited)	
in thousands except for share and per share amounts	2000	2001	2002	2003(2)	2004(1)	2004	2005
STATEMENT OF OPERATIONS DATA:							
Net Revenues	$ 33,441	$ 43,230	$ 50,182	$ 71,556	$ 90,246	$ 67,665	$ 60,264
Operating income (loss)	(23,460)	(6,712)	1,340	(3,642)	(1,974)	(756)	(101,841)
Income (loss) from continuing operations	(26,927)	(6,798)	1,950	(5,000)	(3,800)	(2,227)	(103,456)
Income from discontinued operations	241						
Net income (loss) applicable to common shareholders	(48,052)	(19,060)	1,338	(5,000)	(3,800)	(2,227)	(103,456)
PER SHARE DATA:							
Basic and diluted net loss per share of common stock:							
Income (loss) from continuing operations	$ (37.03)	$ (8.81)	$ 0.21	$ (0.74)	$ (0.33)	$ (0.20)	$ (8.17)
Income from discontinued operations	0.19						
Net income (loss)	(36.84)	(8.81)	0.21	(0.74)	(0.33)	(0.20)	(8.17)
Basic weighted average common shares outstanding	1,304,342	2,162,352	6,322,086	6,783,742	11,617,601	11,278,954	12,665,084
Diluted weighted average common shares outstanding	1,304,342	2,162,352	6,396,893	6,783,742	11,617,601	11,278,954	12,665,084
DIVIDEND DATA:							
Dividends on cumulative preferred stock	1,275	1,665					

	December 31,					September 30, (Unaudited)	
	2000	2001	2002	2003	2004	2004	2005
BALANCE SHEET DATA:							
	$12,156	$ 9,393	$ 8,749	$10,512	$ (1,664)	$ (2,064)	$10,068

Working capital (deficiency)(3)							
Convertible notes			13,400	13,137	13,137	13,137	13,137
Other long-term obligations	729	442	2,581	3,518	1,069	1,543	14,266
Total assets	27,666	35,882	88,704	73,130	184,403	185,034	75,632
Stockholders equity	22,377	22,873	50,735	45,778	135,082	136,488	32,366

(1) includes operations of PlanVista from March 2, 2004

2) includes operations of MedUnite from January 1, 2003

(3) see notes 12(a) and 21 to the consolidated financial statements

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the notes to those financial statements appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under Risk Factors and elsewhere in this prospectus, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

Management s discussion and analysis of financial condition and results of operations, referred to as the MD&A, is provided as a supplement to our audited consolidated financial statements and notes thereto included in this prospectus and to provide an understanding of our consolidated results of operations, financial condition, and changes in financial condition. Our MD&A is organized as follows:

Introduction This section provides a general description of our business, summarizes the significant acquisitions and transactions we completed in the last three years, and provides a brief overview of our operating segments.

Results of Operations This section provides our analysis and outlook for the line items on our consolidated statement of operations on both a company-wide and segment basis.

Liquidity and Capital Resources This section provides an analysis of our liquidity and cash flows, as well as our discussion of our debts and other commitments.

Critical Accounting Policies and Estimates This section discusses those accounting policies that are considered to be both important to our financial condition and results of operations, and require us to exercise subjective or complex judgments in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 1 to our consolidated financial statements.

New Accounting Pronouncements This section includes a discussion of recently published accounting authoritative literature that may have an impact on our historical or prospective results of operations or financial condition.

Introduction

We were incorporated in Florida in 1989. In December 2005, we began doing business under a new operating name, MedAvant Healthcare Solutions. Our newly launched corporate identity unites all business units and employees under one brand identity (MedAvant) and is one of several outcomes resulting from a strategic analysis we completed in the third quarter of 2005 following the acquisition of seven companies between 1997 and 2004.

Since May 2005, we have experienced a number of changes in our senior management, including changes in our Chief Executive Officer, Chief Financial Officer, and President and Chief Operating Officer. John G. Lettko assumed the position of Chief Executive Officer effective May 10, 2005. Douglas O Dowd became our interim Chief Financial Officer effective August 16, 2005, and was subsequently appointed as Chief Financial Officer in October 2005. Mr. Lettko has also been appointed President and Mr. O Dowd was appointed Treasurer, each as of October 27, 2005. On June 9, 2005, we announced the resignation of Nancy J. Ham as President and Chief Operating Officer.

We are a leading healthcare transaction services company providing healthcare transaction processing, medical cost containment services, business process outsourcing solutions and related value-added products to physicians, payers, pharmacies, medical laboratories, and other healthcare suppliers. Our broad existing connectivity to payers and providers positions us as the second largest independent medical claims clearinghouse in the industry, serving over 150,000 providers. Our cost containment business has the second largest Preferred Provider Organization in terms of reach with over 450,000 providers contracted, and currently is sixth in terms of managed care lives accessed through us.

Our business strategy is to leverage our leadership position in transaction services in order to establish ourselves as the premier provider of automated financial, clinical, cost containment, business outsourcing and administrative transaction services primarily between healthcare providers and payers, clinical laboratories and pharmacies.

Our electronic transaction processing services support a broad range of financial, clinical, and administrative transactions. To facilitate these services, we are completing the conversion of all of our non-clinical Electronic Data Interchange clients to Phoenix^{SM}, our secure, proprietary national electronic information network that provides physicians and other healthcare providers with direct connectivity to one of the industry s largest list of payers.

Our cost containment and business outsourcing solutions businesses are included in the Transaction Services segment since our acquisition of PlanVista Corporation in March 2004, and are directed toward the medical insurance and managed care industries. Specifically, we provide integrated national Preferred Provider Organization, also known as PPO, network access, electronic claims repricing, and network and data management to healthcare payers, including self-insured employers, medical insurance carriers, PPOs and third party administrators.

We believe we are uniquely positioned in the marketplace to make a contribution that our competitors do not. The differentiators include our open electronic network for electronic transactions with no equity ownership in businesses engaged in the front-end (i.e., physician practice management software system vendors and other physician desk top vendors) or in the back-end (i.e., payers, laboratories and pharmacies). With our neutral position, we believe that we can better attract both front-end and back-end partners who may be more comfortable doing business with a non-competitive partner.

Another competitive differentiator is our presence in the clinical market. With the nation s largest clinical laboratories as long-time customers, we have worked in partnership with them to develop customized laboratory communication tools and services.

We also have the oldest and most established e-prescribing network in the nation, offering connectivity to over 30,000 pharmacies nationwide. Our e-prescribing solutions improve efficiency by eliminating the need to process prescriptions and refill authorizations via paper. We offer both a front-end desktop solution, PreScribe , and online refill authorization via www.MedAvantHealth.net. Combined we process over 400,000 prescriptions or refills per month.

Acquisitions

On December 31, 2002, we acquired all of the outstanding stock of MedUnite, Inc. for $10 million in cash and the issuance of an aggregate of $13.4 million principal amount of 4% convertible promissory notes. In addition, we paid approximately $6.7 million in transaction and exit related costs. Interest on the convertible promissory notes is payable in cash on a quarterly basis. The convertible promissory notes (now currently payable at a maturity value of $13.1 million after a claim setoff against the escrow in December 2003) are payable in full on December 31, 2008, and are convertible into an aggregate of 716,968 shares (originally 731,322 shares before the claim setoff) of our Common Stock if our revenues resulting from business with the former MedUnite owners exceed certain thresholds over a three and one-half year period from the date of acquisition. We do not anticipate that the former MedUnite owners will meet all of the thresholds defined in the promissory note.

On March 2, 2004, we acquired PlanVista, a company that provides medical cost containment and business process outsourcing solutions for the medical insurance and managed care industries, as well as services for healthcare providers, including individual providers, preferred provider organizations and other provider groups for 3,600,000 shares of our Common Stock issued to PlanVista shareholders valued at $59.8 million (based on the average closing price of our common stock for the day of and the two days before and after December 8, 2003, the date of the announcement of the definitive agreement). We also assumed debt and other liabilities of PlanVista,

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totaling $46.4 million and paid $1.3 million in acquisition-related costs. Additionally, we raised $24.1 million in a private placement sale of 1,691,227 shares of our Common Stock to investment entities affiliated with General Atlantic LLC, Commonwealth Associates and other parties to partially fund repayment of certain of PlanVista s debts and other obligations outstanding at the time of the acquisition. The acquisition has enabled us to become the only entity in healthcare that offers a nationwide clearinghouse and a nationwide PPO network, delivering end-to-end services to our customers.

Upon completion of the acquisition, each share of PlanVista s outstanding common stock was cancelled and converted into 0.08271 shares of our Common Stock and each holder of PlanVista series C preferred stock received 51.5292 shares of our Common Stock in exchange for each share of PlanVista series C preferred stock, representing approximately 23% of our common stock on a fully converted basis, and the holders of our outstanding stock, options and warrants retained approximately 77% of the Company following the transaction. PlanVista s operations are included in our Transaction Services segment commencing March 2004.

Sale of Assets

On June 30, 2004, we sold certain assets and liabilities of our Laboratory Communication Solutions segment that were used in our non-core contract manufacturing business to a new entity owned by a former executive of the Company for $4.5 million in cash. Under terms of the sale agreement, we received $3.5 million in cash at closing and received the balance of $1.0 million in cash in July and August 2004 following the presentation of the final accounting. As part of the disposition, we agreed to purchase certain component parts from the new entity for use in our Laboratory Communication Solutions business on a non-exclusive basis at a fixed price deemed to be at fair market value by management. These parts were valued at $0.4 million at June 30, 2004. As of September 30, 2005 and December 31, 2004, this remaining commitment had been reduced to less than $0.1 million. Additionally, we agreed to sublease a portion of our current facilities through July 2005 and provide certain administrative services to the new entity.

As a result of the transaction, we recorded a loss on sale of assets of $0.1 million in the year ended December 31, 2004. This loss includes the value of options to purchase 10,000 shares of our Common Stock granted to the former executive at an exercise price of $16.00 in July 2004.

Financing Transactions

On December 7, 2005, we entered into a loan transaction with Laurus Master Fund, Ltd. (Laurus) a Selling Shareholder, pursuant to which Laurus extended $20.0 million in financing to us in the form of a $5.0 million secured term loan and a $15.0 million secured revolving credit facility. The term loan has a stated term of five (5) years and will accrue interest at Prime plus 2%, subject to a minimum interest rate of 8%. The term loan is payable in equal monthly principal installments of approximately $89,300 beginning April 2006 and continuing until the maturity date on December 6, 2010. The revolving credit facility has a stated term of three (3) years and will accrue interest at the 90 day LIBOR rate plus 5%, subject to a minimum interest rate of 7%, and a maturity date of December 6, 2008 with two (2) one-year options. In connection with the loan agreement, we issued 500,000 shares of our Common Stock to Laurus, which shares are being offered pursuant to this prospectus. We also granted Laurus a first priority security interest in substantially all of our present and future tangible and intangible assets (including all intellectual property) to secure our obligations under the loan agreement.

Operating Segments

We currently operate in two reportable segments that are separately managed: Transaction Services (formerly known as Electronic healthcare transaction processing) and Laboratory Communication Solutions. Transaction Services includes transaction, cost containment and other value-added services principally between physicians and insurance companies and physicians and pharmacies; and Laboratory Communication Solutions includes the sale, lease and service of communication devices principally to laboratories and, through June 30, 2004, the contract manufacturing of printed circuit boards. Commencing in March 2004, the operations of Plan Vista are included in our Transaction Services segment. As a result of a re-alignment of our corporate overhead functions in the second quarter of 2004, we now report these expenses as part of our Transaction Services segment. Accordingly,

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our corporate expenses in the comparable periods have been combined with our Transaction Services segment to facilitate a better comparison between periods in this section.

Results of Operations

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Total net revenues decreased $7.4 million, or 10.9%, to $60.3 million for the nine months ended September 30, 2005 compared to $67.7 million for the nine months ended September 30, 2004.

Net revenues in our Transaction Services segment decreased by $0.9 million, or 1.6%, for the nine months ended September 30, 2005 compared to the same period in 2004. This decrease is primarily attributable to lower revenues from our EDI business due to competitive pressures in the market and the shift of payers to a non-participating basis. We expect this trend to stabilize for the remainder of 2005. This was partially offset by an increase in revenues from cost containment services due to two additional months included in 2005 revenues compared to 2004. However, the cost containment business volume also declined throughout 2005 as key customers (Third Party Administrators) are losing covered lives due to increased competition in the marketplace. This trend stabilized throughout the remainder of 2005.

A summary of the number of transactions we processed for the periods presented is as follows:

In thousands (unaudited)	Nine Months Ended September 30,			
	2005	2004	Change	% Change
Core Transactions	200,964	190,260	10,704	6%
Encounters	14,913	22,614	(7,701)	-34%
	215,877	212,874	3,003	1%

Laboratory Communication Solutions segment net revenues decreased $6.5 million, or 42.1%, to $9.0 million for the nine months ended September 30, 2005 compared to the same period in 2004. This decrease in revenues is primarily due to the sale of our contract manufacturing assets in June 2004 and lower revenues from our largest customer. We do not anticipate significant growth from this segment through the remainder of 2005 and throughout 2006.

Total cost of sales decreased $5.0 million, or 19.4%, to $20.9 million, for the nine months ended September 30, 2005, compared to $25.9 million for the same period last year.

Cost of sales in our Transaction Services segment consists of transaction fees, provider network outsourcing fees, services and license fees, third-party electronic transaction processing costs, certain telecommunication and co-location center costs, revenue sharing arrangements with our business partners, and third-party database licenses. Cost of sales for the nine months ended September 30, 2005 was unchanged at $16.0 million compared to the same period last year. Gross margins on transaction services were 68.7% for the nine months ended September 30, 2005 compared to 69.2% for the same period last year. The drop in gross margin is due primarily to the fixed cost nature of certain provider network outsourcing contracts.

Cost of sales in the Laboratory Communication Solutions segment includes hardware, third party software, consumable materials, direct manufacturing labor and indirect manufacturing overhead. Cost of sales decreased $5.1 million, or 51.3%, to $4.8 million for the nine months ended September 30, 2005 compared to $9.9 million for the same period in 2004. This decrease is primarily due to the reduction in SG&A expenses related to the sale of our contract manufacturing assets in June 2004 and lower revenues related to our largest customer.

Total SG&A expenses increased $1.7 million or 4.9%, to $37.1 million compared to $35.4 million for the same period in 2004.

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Transaction Services segment SG&A expenses increased $3.3 million or 10.2%, to $35.1 million for the nine months ending September 30, 2005, compared to $31.8 million for the same period last year. This increase is primarily due to two more months of SG&A expenses in 2004 related to the PlanVista acquisition in March 2004, severance payments ($0.5 million) related to the reduction in workforce in August 2005 and higher benefit costs related to our self insurance plan partially offset by lower payroll related to the workforce reduction and the reclassification of bad debt expense as a reduction of gross revenues in the 2005 period.

Laboratory Communication Solutions segment SG&A expenses decreased $1.5 million or 42.8% to $2.1 million for the nine months ended September 30, 2005, compared to $3.6 million for the same period last year. This decrease is primarily due to the reduction in SG&A expenses related to the sale of our contract manufacturing assets in this segment in June 2004.

Impairment charges. As a result of our stock price decline and restructuring during the third quarter of 2005, we performed a goodwill impairment test as of September 30, 2005. In accordance with the provisions of SFAS No. 142, we used a discounted cash flow analysis which indicated that the book value of the Transaction Services segment exceeded its estimated fair value and that goodwill impairment had occurred. In addition, as a result of the goodwill analysis, we assessed whether there had been an impairment of our long-lived assets in accordance with SFAS No. 144. We concluded that the book value of certain intangible assets was higher than their expected future cash flows and that impairment had occurred. In addition, we also reduced the remaining useful lives of other intangible assets based on the foregoing analysis. Accordingly, we recorded a non-cash impairment charge of $95.7 million at September 30, 2005 in our Transaction Services segment. The charges included $68.1 million impairment of goodwill and $27.6 million impairment of certain other intangibles.

In June 2005, we recorded an impairment charge of $0.7 million in our Laboratory Communications Solutions segment as a result of the substantial revenue decline of a certain customer. In accordance with the provisions of SFAS No. 144, the Company prepared a discounted cash flow analysis which indicated the carrying value of the intangible asset associated with this customer was greater than the fair value and that impairment had occurred.

Depreciation and amortization expense increased $0.6 million or 8.5% to $7.7 million for the nine months ended September 30, 2005, compared to $7.1 million for the same period in 2004. The increase was primarily in the Transaction Services segment due to two additional months of amortization expense for intangible assets related to the PlanVista acquisition in March 2004; offset by a decrease in depreciation expense related to the sale of our contract manufacturing assets in the Laboratory Communication Solutions segment in June 2004.

As a result of the foregoing, the operating loss for the nine months ended September 30, 2005 was $101.8 million compared to an operating loss of $0.8 million for the same period last year.

Net interest expense for each of the nine months ended September 30, 2005 and 2004 was $1.4 million.

Other expense for the nine months ended September 30, 2005 was $0.2 million. This amount was incurred as a result of a litigation settlement. Other income for the same period last year related to a gain in the settlement of a liability assumed in a prior acquisition.

As a result of the foregoing, net loss for the nine months ended September 30, 2005 was $103.5 million compared to $2.2 million for the same period in 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Revenues. Consolidated net revenues for 2004 increased by $18.7 million, or 26%, to $90.2 million from consolidated net revenues of $71.6 million for 2003. Net revenues classified by our reportable segments are as follows:

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In thousands	2004	2003
Transaction Services	$ 71,304	$ 46,673
Laboratory Communication Solutions	18,942	24,883
	$ 90,246	$ 71,556

Net revenues in our Transaction Services segment for 2004 increased by $24.6 million, or 53%, over 2003. This increase is primarily due to the acquisition of PlanVista (increase of $26.9 million), offset by declines in volumes of electronic claims, statements and other real-time transactions processed (decrease $2.1 million) and additional revenue reserves required due to a degradation in the aging of outstanding traditional accounts (increase of $0.7 million). While core transaction growth was down 1.4% compared to the prior year (see below), revenue dollars have grown significantly due to the higher per transaction revenue attributable to our cost containment transactions compared to our traditional core transactions.

For 2004, approximately 79% of our revenues came from our Transaction Services segment compared to 65% from this segment for 2003.

Laboratory Communication Solutions segment net revenues for 2004 decreased by $5.9 million, or 24%, from 2003 primarily as a result of the asset sale discussed earlier in this report (decrease of $5.6 million).

A summary of the number of transactions we processed for the periods presented is as follows:

In thousands	2004	2003
Core transactions (1)	194,558	197,284
Additional core transactions	64,775	50,502
Encounters	29,172	25,529
Total transactions	288,505	273,315

(1) Includes 4.5 million cost containment transactions in the 2004 period from the Company s acquisition of PlanVista. Core transactions represent all transactions except for encounters. Additionally, as a result of a continued review of our business, we have made changes to our transaction counts to insure that our transactions are counted on the same methodology for all purposes, whether internal or external. Previously, we had excluded certain transactions primarily associated with an outsourcing contract due to

the nature of the business model for those transactions. These transactions are included above as additional core transactions in 2003 and 2004.

Cost Containment transactions represent the number of claims sent by our payer clients to be re-priced through our provider network.

Encounters are an administrative reporting transaction for payers but do not generate revenue for the provider who must submit them. Accordingly, rather than submitting on a routine basis, most providers choose to periodically catch up on their submissions, creating monthly and quarterly swings in both the number of encounters we process and what percentage of our transaction mix they represent. Since encounters are at a significantly lower price point than claims, these swings make it difficult to analyze our quarter-over-quarter growth in our business. In addition, we do not expect our encounter volume to grow on an annual basis, as payers are not expanding the capitated service model that is the foundation of encounters. Therefore, we believe that breaking out encounters shows more clearly our growth in core transactions.

Cost of Sales. Consolidated cost of sales decreased as a percentage of net revenues to 38% for 2004 from 45% for 2003. Cost of sales classified by our reportable segments is as follows:

In thousands	2004	2003
Transaction Services	$ 22,401	$ 15,893
Laboratory Communication Solutions	11,811	16,528
	$ 34,212	$ 32,421

Cost of sales in our Transaction Services segment consists of transaction fees, provider network outsourcing fees, services and license fees, third-party electronic transaction processing costs, certain telecommunication and co-location center costs, revenue sharing arrangements with our business partners, third-party database licenses, and certain travel expenses. Cost of sales in this segment increased by $6.5 million, or 41%, for 2004 compared to 2003. As a percentage of revenues, cost of sales decreased to 31% in the 2004 compared to 34% in 2003 primarily due to a change in the mix of transaction types from higher cost patient statements to lower cost claim transactions, offset by the addition of higher margin medical cost containment services from our acquisition of PlanVista (increase of $8.8 million).

Cost of sales in our Laboratory Communication Solutions segment includes hardware, third party software, consumable materials, direct manufacturing labor and indirect manufacturing overhead. Cost of sales for this segment for 2004 decreased $4.8 million, or 29%, from 2003. These decreases are primarily due to the sale of our contract manufacturing assets. Cost of sales as a percentage of revenues in this segment was 62% for 2004 compared to 66% for the 2003 year.

Selling, General and Administrative Expenses. Consolidated SG&A increased for 2004 by $12.2 million, or 34%, to $48.0 million from consolidated SG&A of $35.8 million for 2003. Consolidated SG&A expenses as a percentage of consolidated revenues increased to 53% in 2004 from 50% in 2003. SG&A expenses classified by our reportable segments are as follows:

In thousands	2004	2003
Transaction Services	$ 43,625	$ 30,283
Laboratory Communication Solutions	4,398	5,526
	$ 48,023	$ 35,809

Transaction Services segment SG&A expenses for the year ended December 31, 2004 increased by $13.3 million, or 44% over 2003. The primary cause of the increase was the addition of SG&A expenses from PlanVista for ten months in the 2004 period (increase of $10.5 million). Additionally, while we achieved significant reductions in expenses from our MedUnite acquisition over the course of 2003, these savings have been offset by increased expenditures related to our ongoing efforts to comply with the Sarbanes-Oxley Act of 2002 during 2004 (increase of $1.7 million).

Laboratory Communication Solutions segment SG&A expenses for 2004 decreased by $1.1 million, or 20% from 2003 and segment SG&A expenses as a percentage of segment net revenues increased to 23% in 2004 from 22% in 2003. The decreases in dollars are primarily due to a reduction in expenses related to the sale of our contract manufacturing assets on June 30, 2004.

Depreciation and Amortization. Consolidated depreciation and amortization increased by $3.4 million to $9.8 million for 2004 from $6.3 million for 2003. This increase was primarily due to approximately $3.5 million for the amortization of intangible assets acquired in the PlanVista acquisition in the transaction services segment; offset by a decrease in depreciation expense in the Laboratory Communication Solutions segment due to the sale of our manufacturing assets. Depreciation and amortization classified by our reportable segments is as follows:

In thousands	2004	2003
Transaction Services	$ 8,719	$ 4,754
Laboratory Communication Solutions	823	1,369
Corporate	221	193
	$ 9,763	$ 6,316

Loss on Disposal of Assets. In 2004, we recorded a consolidated loss on the disposal of assets of $47,000. This loss is related to the disposition of contract manufacturing assets in our Laboratory Communication Solutions segment that were sold for $68,000 to a new entity formed by a former executive on June 30, 2004; and $5,000 of miscellaneous items offset by $26,000 in gains on vehicles and other equipment sold. As a result of the consolidation of the Company and MedUnite offices in Atlanta in February 2003, we recorded $0.1 million in losses during 2003 primarily related to the disposition of certain assets owned and leased that were acquired in the acquisition of MDP Corporation in 2001.

Litigation Settlement. In December 2004, we settled an outstanding preacquisition contingency related to PlanVista for $0.2 million, net of insurance reimbursement.

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Operating Income (Loss). As a result of the foregoing, the consolidated operating loss for 2004 was $2.0 million compared to loss of $3.6 million for 2003. Operating loss classified by our reportable segments is as follows:

In thousands	2004	2003
Transaction Services	$ (2,815)	$ (920)
Laboratory Communication Solutions	1,938	1,119
Corporate	(1,097)	(3,841)
	$ (1,974)	$ (3,642)

Other Income (Expense), net. During 2004, we settled a long-term liability assumed in the acquisition of MedUnite for $0.8 million. The liability was being carried at its present value of $0.9 million. The resulting gain of $0.1 million is reflected as other income. Additionally, in conjunction with our distribution and marketing agreement with PlanVista for claims repricing services signed in June 2003, we received a warrant to purchase up to 15% of PlanVista common stock that expired in December 2003. The warrant was initially valued at $0.5 million and recorded as an asset. Upon expiration of the warrant in December 2003, we recorded an impairment loss in the amount of $0.5 million (representing the original value of the warrant) for the 2003 year.

Interest Expense, net. Consolidated net interest expense for 2004 was $1.9 million compared to $0.9 million for the same period in 2003. This increase in expense is primarily due to the assumption of debt in conjunction with the PlanVista acquisition (increase of $1.2 million).

Net Loss. As a result of the foregoing, consolidated net loss for 2004 was $3.8 million compared to consolidated net loss of $5.0 million for 2003.

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

Net Revenues. Consolidated net revenues for 2003 increased by $21.4 million, or 43%, to $71.6 million from consolidated net revenues of $50.2 million for 2002. Net revenues classified by our reportable segments are as follows:

In thousands	2003	2002
Transaction Services	$ 46,673	$ 22,439
Laboratory Communication Solutions	24,883	27,743
	$ 71,556	$ 50,182

Net revenues in our Transaction Services segment (formerly known as Electronic healthcare transaction processing) increased $24.2 million or 108% over the 2002 period. This increase was driven by internal growth and more significantly by transactions generated by MedUnite (increase of $18.0 million).

Total healthcare transactions grew 139.4% from 114.2 million transactions in the 2002 period to 273.3 million transactions in 2003. Core transaction growth was up 121.4% from the 2002 period. The increase in transaction volume was primarily attributable to the MedUnite acquisition and internal growth in both claims and statements processed. A summary of the number of transactions we processed for the periods presented is as follows:

In thousands	2003	2002
Core transactions	197,284	89,123
Additional core transactions	50,502	
Encounters	25,529	25,045
Total transactions	273,315	114,168

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Laboratory Communication Solutions segment net revenues decreased by 10% from the 2002 period. As the sluggish economy continued throughout 2003, we experienced a slowdown in contract manufacturing sales and sales of communication devices at our smaller labs and hospital labs. Additionally, beginning in 2004, we lost a customer in our contract manufacturing business that represented approximately 13% of this segment s 2003 revenues.

Cost of Sales. Consolidated cost of sales decreased from 52% of net revenues in 2002 to 45% in 2003. Cost of sales classified by our reportable segments is as follows:

In thousands	2003	2002
Transaction Services	$ 15,893	$ 8,793
Laboratory Communication Solutions	16,528	17,223
	$ 32,421	$ 26,016

Cost of sales as a percentage of revenues in the Transaction Services segment was 34% in the 2003 period compared to 39% in the same period last year primarily due to a change in the mix of transaction types from higher cost patient statements to lower cost sales of data and claims and real-time transactions (such as eligibility verification) through additional transactions acquired from MedUnite.

In 2003, we reclassified direct labor and manufacturing overhead from selling, general and administrative expenses to cost of tangible products sold to better reflect the production of tangible products. All prior periods have a similar reclassification. As a result, cost of sales in the Laboratory Communication Solutions segment includes hardware, third-party software, consumable materials, direct manufacturing labor and indirect manufacturing overhead. Cost of sales as a percentage of revenues in this segment increased to 66% for 2003 compared to 62% for 2002 primarily due to a change in the mix from lower cost leases to higher cost contract manufacturing.

Selling, General and Administrative Expenses. Consolidated SG&A increased for 2003 by $15.7 million, or 78%, to $35.8 million from consolidated SG&A of $20.2 million for 2002. Consolidated SG&A expenses as a percentage of consolidated revenues increased to 50% for 2003 compared to 40% in 2002. SG&A expenses classified by our reportable segments are as follows:

In thousands	2003	2002
Transaction Services	$ 26,645	$ 11,430
Laboratory Communication Solutions	5,526	6,128
Corporate	3,638	2,594
	$ 35,809	$ 20,152

SG&A expenses in the Transaction Services segment increased 133% during 2003 over the same period in 2002, primarily due to the incremental expenses incurred in the operations of MedUnite, costs related to our HIPAA compliance efforts, implementation staffing and sales/marketing programs implemented since 2002. Segment SG&A expenses as a percentage of segment net revenues increased to 57% for 2003 compared to 51% in 2002 due to the higher expense run rate in the MedUnite operations earlier in the 2003 period compared to our existing business. While we incurred significant SG&A costs related to the MedUnite operations in the first quarter of 2003, we were successful at significantly reducing the monthly operating expenses in the second and third quarters of 2003 and thus achieving much improved results in the second half of the year. We were successful in eliminating or renegotiating substantial telecommunication expenses and duplicative contract management, human resources and customer relationship management systems. However, this improvement was somewhat offset as the development projects related to the integration of MedUnite were moved into production resulting in a decrease in the amount of capitalized development related to our real-time and *Phoenix*^{SM} platforms. By the end of the 2003 period, SG&A expenses in this segment were 51% of segment revenues and indicative of the run rate we expected for a combined operation.

SG&A expenses in our Laboratory Communication Solutions segment decreased by 10% in the 2003 period from the same period in 2002 primarily due to cost cutting measures implemented in the third quarter of 2002. Segment SG&A expenses as a percentage of segment net revenues remained the same at 22% for both periods.

Depreciation and Amortization. Consolidated depreciation and amortization increased by $3.7 million to $6.3 million for 2003 from $2.6 million for 2002. This increase was primarily due to $1.5 million for the amortization of intangible assets acquired in the MedUnite acquisition, which includes amortization of *MedAvantHealth.net,* our real-time network based on the technology platform acquired from MedUnite, and the amortization of the customer relationships acquired from MedUnite. Amortization of intangible assets related to additional capitalized software development increased in late 2003 as we placed the *Phoenix*SM platform into production and commenced the amortization of this asset. Depreciation and amortization classified by our reportable segments is as follows:

In thousands	2003	2002
Transaction Services	$ 4,754	$ 1,581
Laboratory Communication Solutions	1,369	857
Corporate	193	198
	$ 6,316	$ 2,636

Loss on Disposal of Assets. As a result of the consolidation of the Company and MedUnite offices in Atlanta during 2003, we recorded $0.1 million in net losses primarily related to the disposition of certain assets owned and leased that were acquired in the acquisition of MDP Corporation in 2001.

Write-off of Impaired and Obsolete Assets. As a result of our periodic review for impairment, we wrote off $0.5 million in customer relationships related to our 2002 acquisitions of KenCom and MDIP and $0.1 million in capitalized software during the 2003 period. During 2002, we wrote off $38,000 in capitalized programming costs in connection with the development of our real-time transaction processing applications as a result of acquiring the same functionality in the software platforms acquired from MedUnite. These write-offs are expected to lower amortization expense by $0.1 million in 2004. Impairment charges classified by our reportable segments are as follows:

In thousands	2003	2002
Transaction Services	$ 193	$ 38
Laboratory Communication Solutions	348	
	$ 541	$ 38

Operating Income (Loss). As a result of the foregoing, consolidated operating loss for 2003 was $3.6 million compared to operating income of $1.3 million for 2002. Operating income (loss) classified by our reportable segments is as follows:

In thousands	2003	2002
Transaction Services	(920)	$ 597
Laboratory Communication Solutions	1,119	3,535
Corporate	(3,841)	(2,792)
	$ (3,642)	$ 1,340

Other Income (Expense), net. In conjunction with our distribution and marketing agreement with PlanVista for claims re-pricing services signed in June 2003, we received a warrant to purchase up to 15% of PlanVista common stock that expired in December 2003. The warrant was initially valued at $0.5 million and recorded as an asset. Upon expiration of the warrant in December 2003, we recorded an impairment loss in the amount of $0.5 million (representing the original value of the warrant) for the 2003 year.

Interest income (expense), net. Consolidated net interest expense was $0.9 million compared to net interest income of $0.3 million for 2002. This increase in expense is primarily due to interest related to Company s convertible debt issued to the former owners of MedUnite and the financing of certain liabilities of MedUnite during the 2003 period, and lower interest income earned on a smaller investment base at lower interest rates.

Net Income (Loss). As a result of the foregoing, consolidated net loss for 2003 was $5.0 million compared to net income of $2.0 million for 2002.

Deemed Dividends and Other Charges. We did not incur deemed dividends and other charges during 2003. During 2002, we incurred deemed dividends and other charges of $0.6 million as a result of non-cash accounting charges for the conversion of 31,650 preferred shares into 242,510 shares of common stock by our Series C preferred shareholders in 2002 pursuant to our offer to convert their shares commencing in December 2001.

Net Income (Loss) Applicable to Common Shareholders. As a result of the foregoing, we reported net loss applicable to common shareholders of $5.0 million for 2003 compared to a net income applicable to common shareholders of $1.3 million for 2002.

Liquidity and Capital Resources

During the nine months ended September 30, 2005 and the year ended December 31, 2004, net cash provided by operating activities totaled $4.3 million and $1.8 million, respectively. The 2004 amounts included $4.0 million to pay certain acquisition-related expenses of PlanVista outstanding as of the effective date of the acquisition. Cash (used in) provided by investing activities for the nine months ended September 30, 2005 and year ended December 31, 2004 totaled ($2.0) million and $0.7 million, respectively. The 2005 amounts related primarily to the funding of capital expenditures related to our technical infrastructure, administrative systems and capitalization of internally developed systems, while the 2004 amounts consisted primarily of $0.8 million in net cash acquired from PlanVista and $4.5 million received from the sale of our contract manufacturing assets, offset by $0.9 million in costs related to the acquisitions of PlanVista and MedUnite and $4.3 million in capital expenditures and capitalized software. Cash (used in) provided by financing activities for the nine months ended September 30, 2005 and the year ended December 31, 2004, totaled ($7.9) million and $4.5 million, respectively. The 2005 amounts consist primarily of repayment of notes payable, other long term debt and capital leases, offset by proceeds from the sale of our stock to our Chief Executive Officer during the second quarter of 2005. The 2004 amounts consisted of a $24.1 million private placement of our common stock, and proceeds from the exercise of stock options and warrants for $8.8 million, offset by $28.3 million in repayments of notes payable, other long-term debt, and payments related to capital leases (including $27.4 million for the retirement of debts and other obligations of PlanVista upon the consummation of the acquisition).

On April 18, 2005, we closed a three year, $15.0 million senior asset based facility which was secured by all assets of the combined entities with Wachovia Bank, N.A. During the second quarter of 2005, we defaulted on a financial covenant under this credit facility. We subsequently obtained a waiver of this default and renegotiated the covenant. During the third quarter of 2005, we were in compliance with all financial covenants related to this credit facility. As of September 30, 2005, our principal source of liquidity was our cash and revolving credit facility with Wachovia. The facility with Wachovia was repaid in full and terminated in December 2005 in connection with the Laurus transaction described below.

During the nine months ended September 30, 2005 and the year ended 2004, we spent $2.0 million and $4.3 million, respectively, towards hardware and software costs, including internally developed software primarily related to our technical infrastructure and administrative systems. Furthermore, in 2005 and 2004, we incurred costs of approximately $0.6 million and $1.7 million, respectively, in connection with the implementation of our internal control procedures mandated by the Sarbanes-Oxley Act of 2002 and with our financial system consolidation efforts.

We have also spent the better part of two years on HIPAA compliance efforts, which has resulted in significant costs. We now have over 98% of our total transaction volume migrated to a HIPAA compliant connection to our payer customers. However, on our submitter customer side, 85% of our providers continue to submit their transactions to us in legacy formats and rely on us to help meet HIPAA format requirements. Our continued efforts on the submitter side for HIPAA compliance will force us to continue to spend additional funds in the future.

On December 7, 2005, we entered into a loan transaction with Laurus Master Fund, Ltd. (Laurus), a Selling Shareholder, pursuant to which Laurus extended $20 million in financing to us in the form of a $5.0 million secured term loan and a $15.0 million secured revolving credit facility. The term loan has a stated term of five (5) years and will accrue interest at Prime plus 2%, subject to a minimum interest rate of 8%. The term loan is payable in equal monthly principal installments of approximately $89,300 until the maturity date on December 6, 2010. The revolving credit facility has a stated term of three (3) years, with two one-year options, and will accrue interest at the 90 day LIBOR rate plus 5%, subject to a minimum interest rate of 7%, and a maturity date of December 6, 2008. In connection with the loan agreement, we issued 500,000 shares of our Common Stock to Laurus, which shares are being offered pursuant to this prospectus. We also granted Laurus a first priority security interest in substantially all of our present and future tangible and intangible assets (including all intellectual property) to secure our obligations under the loan agreement.

The loan agreement with Laurus contains various customary representation and warranties by us, as well as customary affirmative and negative covenants, including, without limitation, limitations on property liens, maintaining specific forms of accounting and record maintenance, and limiting the incurrence of additional debt. The loan agreement does not contain restrictive covenants regarding minimum earning requirements, historical earning levels, fixed charge coverage, or working capital requirements. The loan agreement also contains certain customary events of default, including, among others, non-payment of principal and interest, violation of covenants, and in the event we are involved in certain insolvency proceedings. Upon the occurrence of an event of default, Laurus is entitled to, among other things, accelerate all of our obligations under the loans. In the event Laurus accelerates the loans, the amount due will include all accrued interest plus 120% of the then outstanding principal amount of the loans being accelerated as well as all unpaid fees and expenses of Laurus. In addition, if the revolving credit facility is terminated for any reason, whether because of a prepayment or acceleration, we are required to pay an additional premium of up to 5% of the total amount of the revolving credit facility. In the event we elect to prepay the term loan, the amount due shall be the accrued interest plus 115% of the then outstanding principal amount of the term loan.

We had cash and cash equivalents totaling $6.8 million as of September 30, 2005, compared to $12.5 million at December 31, 2004. These available funds will be used for operations, strategic acquisitions, the further development of our products and services, repayment of debt and other general corporate purposes. We continue to evaluate other acquisition opportunities and strategic alternatives that may add synergies to our product offerings and business strategy.

We do not have any material commitments for any other capital expenditures; however, we have budgeted approximately $6.0 million for capital expenditures and capitalized development for 2006.

On March 2, 2004, we acquired PlanVista through the issuance of 3,600,000 shares of our Common Stock (valued at $59.8 million). In addition, we raised an additional $24.1 million in a private placement sale of our Common Stock and drew down $4.4 million on our then asset-based line of credit. These funds, along with available cash resources, were used to satisfy $27.4 million of PlanVista s debt and other obligations outstanding as of the effective time of the acquisition.

At the time of its acquisition by the Company, PlanVista was involved in various lawsuits and threatened litigation. To date, a significant number of these cases have been settled or dismissed and resulted in $0.7 million charged to goodwill and $0.2 million charged to expense in 2004. As of December 31, 2004, the material unresolved pre-acquisition contingencies include only a class action suit in which PlanVista is named defendant and for which a preliminary settlement, which results in no out of pocket settlement costs to the Company, is waiting on final judicial confirmation.

In 2003, net cash provided by operating activities totaled $1.5 million. Cash used for investing activities totaled $9.6 million and consisted primarily of payments of costs related to the acquisition of MedUnite, capital expenditures and capitalized software. Cash used in financing activities totaled $3.0 million mainly due to repayments of notes payable, other long-term debt, and payments related to capital leases.

In December 2003, we closed on a $12.5 million asset-based line of credit with our commercial bank. Borrowing under such facility was subject to eligible cash, accounts receivable, and inventory and other conditions. Borrowings bear interest at the prime rate plus 0.5% or at LIBOR plus 2.25% (or LIBOR plus 0.75% in the case of borrowings against eligible cash only). As a result of our acquisition of PlanVista, we drew down $4.4 million against this line at the end of February 2004 (which line was repaid in early March 2004 and terminated in April 2005).

In 2002, cash provided by operating activities was $2.8 million. During this period, we paid $9.1 million for our acquisition of Medunite and paid $5.3 million for two other acquisitions; paid $0.7 million for purchase of certain customer relationships; paid in full our $7.0 million promissory note related to a 2001 acquisition; and paid $2.0 million for fixed assets and capitalized software. These activities were principally financed through a private placement of our common stock valued at $25.0 million in April 2002, proceeds of $0.5 million from the exercise of B warrants, and available cash resources.

The following table as of September 30, 2005 represents our contractual cash obligations due over the next several years. Operating leases, including facility leases, are shown net of any sublease agreements.

In thousands	2005	2006	2007	2008	2009
Interest on convertible notes (1)	$ 132	$ 525	$ 525	$ 526	$
Interest on senior and other debt	1,885	420	297	208	150
Convertible notes (1)				13,137	
Senior debt		714	1,072	1,072	1,072
Notes payable (2)	428	350			
Litigation settlement (3)	455	1,270	940	235	
Capital lease obligations (2)	1	6	1		
Operating leases	406	1,415	1,418	1,013	781
Total	$ 3,307	$ 4,700	$ 4,253	$ 16,191	$ 2,003

(1) Assumes no conversion of convertible notes

(2) Includes principal and interest

(3) Net of insurance reimbursement

For the foreseeable future, we believe that we have sufficient cash and cash equivalents on hand or available to us under our credit facility, and we anticipate sufficient cash from operations, to fund our future operational requirements and capital expenditures, and to provide a sufficient level of capital in order to fund specific research and development projects or to pursue smaller additional strategic acquisitions. If we require additional funding in the future to satisfy any of our outstanding future obligations, or further our strategic plans, there can be no assurance that any additional funding will be available to us, or if available, that it will be available on acceptable terms. If we are successful in obtaining additional financing, the terms of the financing may have the effect of significantly diluting or adversely affecting the holdings or the rights of the holders of our common stock. We believe that if we are not successful in obtaining additional financing for further product development or strategic acquisitions, such inability may adversely impact our ability to successfully execute our business plan and may put us at a competitive disadvantage.

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Off Balance Sheet Arrangements

We have no off balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, but we believe that any variation in results would not have a material effect on our financial condition. We evaluate our estimates on an ongoing basis.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to Consolidated Financial Statements.

Revenue Recognition Revenue is derived from our Transaction Services and Laboratory Communication Solutions segments.

Revenues in the Company s Transaction Services segment are recorded as follows: