

PER SE TECHNOLOGIES INC

Form 10-Q

August 08, 2006

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2006**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

**Commission file number: 000-19480**

**Per-Se Technologies, Inc.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**

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

**58-1651222**

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

**1145 Sanctuary Parkway, Suite 200  
Alpharetta, Georgia**

*(Address of principal executive offices)*

**3004**

*(Zip code)*

**(770) 237-4300**

*(Registrant's telephone number, including area code)*

**Not Applicable**

*(Former name, former address and former fiscal year, if changed since last report)*

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

<b>Title of Class</b>	<b>Shares Outstanding at July 28, 2006</b>
Common Stock \$0.01 Par Value	39,100,025 shares
Non-voting Common Stock \$0.01 Par Value	0 shares

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**PER-SE TECHNOLOGIES, INC.**

**FORM 10-Q**

**For the Fiscal Quarter Ended June 30, 2006**

	<b>Page</b>	
<b><u>PART I: FINANCIAL INFORMATION</u></b>		
<u>Item 1.</u>	<u>Financial Statements</u>	2
	<u>Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005 (Unaudited)</u>	2
	<u>Consolidated Statements of Operations for the three and six months ended June 30, 2006 and 2005 (Unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005 (Unaudited)</u>	4
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4.</u>	<u>Controls and Procedures</u>	35
<b><u>PART II: OTHER INFORMATION</u></b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	38
<u>Item 1A.</u>	<u>Risk Factors</u>	38
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	44
<u>Item 6.</u>	<u>Exhibits</u>	45
	<u>EX-10.5 FORM OF PERFORMANCE-BASED RESTRICTED STOCK</u>	
	<u>EX-10.6 FORM OF SERVICE-BASED RESTRICTED STOCK</u>	
	<u>EX-31.1 SECTION 302 CERTIFICATION OF THE CEO</u>	
	<u>EX-31.2 SECTION 302 CERTIFICATION OF THE CFO</u>	
	<u>EX-32.1 SECTION 906 CERTIFICATION OF THE CEO</u>	
	<u>EX-32.2 SECTION 906 CERTIFICATION OF THE CFO</u>	

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. *Financial Statements*****PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	<b>(In thousands, except par value data)</b>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 26,867	\$ 61,161
Accounts receivable (less allowances of \$5,131 and \$3,348 as of June 30, 2006, and December 31, 2005, respectively)	96,158	54,397
Deferred income taxes current, net	4,507	4,056
Prepaid expenses	11,662	3,004
Other	5,227	3,555
Total current assets	144,421	126,173
Property and equipment, net of accumulated depreciation	41,669	16,843
Goodwill	382,952	38,199
Other intangible assets, net of accumulated amortization	303,030	21,946
Deferred income taxes, net	29,151	26,238
Other	20,330	10,124
Total assets	\$ 921,553	\$ 239,523
<b>Current Liabilities:</b>		
Accounts payable	\$ 8,732	\$ 5,982
Accrued compensation	17,978	15,265
Accrued expenses	55,379	17,002
Current portion of long-term debt and capital lease obligations	240	135
Deferred revenue current	37,984	25,821
Total current liabilities	120,313	64,205
Long-term debt and capital lease obligations	510,448	125,490
Deferred revenue	10,096	
Other obligations	22,122	5,312
Total liabilities	662,979	195,007
<b>Stockholders Equity:</b>		
Preferred stock, no par value, 20,000 shares authorized; none issued		

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Common stock, voting, \$0.01 par value, 200,000 shares authorized, 42,068 and 33,511 issued and 39,080 and 30,523 outstanding as of June 30, 2006, and December 31, 2005, respectively	421	335
Common stock, non-voting, \$0.01 par value, 600 shares authorized; none issued		
Paid-in capital	1,017,052	804,875
Accumulated deficit	(720,542)	(719,759)
Treasury stock at cost, 2,988 as of June 30, 2006, and December 31, 2005	(41,899)	(41,817)
Deferred stock unit plan obligation	1,507	1,429
Accumulated other comprehensive income (loss)	2,035	(547)
Total stockholders' equity	258,574	44,516
Total liabilities and stockholders' equity	\$ 921,553	\$ 239,523

See notes to consolidated financial statements.

Table of Contents

**PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share data)</b>			
Revenue	\$ 152,673	\$ 93,300	\$ 298,914	\$ 185,330
Operating expenses:				
Cost of services	86,746	62,470	188,351	122,507
Selling, general and administrative	44,530	21,974	88,990	43,114
Operating income	21,397	8,856	21,573	19,709
Interest expense	8,562	1,448	17,075	2,929
Interest income	(482)	(336)	(1,114)	(648)
Income before income taxes	13,317	7,744	5,612	17,428
Income tax expense	5,460	198	6,321	451
Income (loss) from continuing operations	7,857	7,546	(709)	16,977
Loss from discontinued operations, net of tax	(49)		(74)	
Net income (loss)	\$ 7,808	\$ 7,546	\$ (783)	\$ 16,977
Net income (loss) per common share basic:				
Income (loss) from continuing operations	\$ 0.20	\$ 0.25	\$ (0.02)	\$ 0.57
Loss from discontinued operations, net of tax				
Net income (loss) per common share basic	\$ 0.20	\$ 0.25	\$ (0.02)	\$ 0.57
Weighted average shares used in computing basic earnings per share	39,025	29,773	38,721	30,032
Net income (loss) per common share diluted:				
Income (loss) from continuing operations	\$ 0.18	\$ 0.23	\$ (0.02)	\$ 0.52
Loss from discontinued operations, net of tax				
Net income (loss) per common share diluted	\$ 0.18	\$ 0.23	\$ (0.02)	\$ 0.52
Weighted average shares used in computing diluted earnings per share	44,078	32,410	38,721	32,480

See notes to consolidated financial statements.



**Table of Contents**

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net (loss) income	\$ (783)	\$ 16,977
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	37,396	7,539
Stock-based compensation expense	2,703	
Amortization of deferred financing costs	1,108	683
Deferred income taxes	5,385	
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Accounts receivable	(5,894)	(5,551)
Accounts payable	(4,810)	156
Accrued compensation	(3,714)	6,603
Accrued expenses	(26,062)	(2,082)
Deferred revenue	18,233	1,639
Other, net	6,313	(3,352)
Net cash provided by operating activities	29,875	22,612
<b>Cash Flows from Investing Activities:</b>		
Acquisitions, net of cash acquired	(429,835)	
Purchases of property and equipment	(6,312)	(4,529)
Software development costs	(8,595)	(3,373)
Other		(163)
Net cash used for investing activities	(444,742)	(8,065)
<b>Cash Flows from Financing Activities:</b>		
Treasury stock purchases		(15,404)
Proceeds from the exercise of stock options	2,897	4,600
Proceeds from borrowings	435,000	
Payments of debt	(50,134)	(9)
Deferred financing costs	(7,662)	
Other	472	10
Net cash provided by (used for) financing activities	380,573	(10,803)
<b>Cash and Cash Equivalents:</b>		
Net change	(34,294)	3,744
Balance at beginning of period	61,161	42,422

Balance at end of period	\$ 26,867	\$ 46,166
<b>Supplemental Disclosures:</b>		
Cash paid for:		
Interest	\$ 16,074	\$ 2,291
Income taxes	10,278	413
Non-cash investing activity:		
Common Stock issued in connection with the acquisition of NDCHealth	\$ 197,915	\$

See notes to consolidated financial statements.

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1 Basis of Presentation**

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

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information, the rules and regulations of the Securities and Exchange Commission ( SEC ) for interim financial statements, and accounting policies consistent, in all material respects, with those applied in preparing the Company s audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the SEC on March 15, 2006 ( 2005 Form 10-K ). These interim financial statements are unaudited but reflect all adjustments (consisting of normal recurring adjustments) management considers necessary for a fair presentation of the Company s financial position, operating results and cash flows for the interim periods presented. The information included in this report should be read in conjunction with the 2005 Form 10-K.

As discussed in Note 3, the Company completed the acquisition of NDCHealth Corporation ( NDCHealth ) on January 6, 2006, and has included the financial results of NDCHealth in its consolidated financial statements beginning January 6, 2006.

**Note 2 Stock-Based Compensation Plans**

On December 16, 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123(R) ), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ( SFAS No. 123 ). SFAS No. 123(R) supersedes Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB No. 25 ), and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The original effective date of SFAS No. 123(R) was for interim periods beginning after June 15, 2005.

On April 14, 2005, the SEC announced the adoption of a rule that amended the compliance date for SFAS No. 123(R). The Company was required to adopt SFAS No. 123(R) no later than January 1, 2006.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all periods presented or (b) prior interim periods of the year of adoption.

On January 1, 2006, the Company adopted SFAS No. 123(R) using the modified prospective method described above. The Company's consolidated financial statements as of and for the three and six months ended June 30, 2006, reflect the impact of SFAS No. 123(R). In accordance with the modified prospective method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

SFAS No. 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

recognized as stock-based compensation expense over the requisite service period in the Company's consolidated financial statements. Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB No. 25 as allowed under SFAS No. 123. Under the intrinsic value method, no stock-based compensation expense was recognized in the Company's consolidated statements of operations for stock options because the exercise price of the Company's stock options granted to employees and directors equaled or exceeded the fair market value of the underlying stock at the date of grant. However, the Company previously disclosed the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock-based compensation plans in its prior period financial statement footnotes.

As stock-based compensation expense recognized in the accompanying unaudited consolidated statement of operations for the three and six months ended June 30, 2006, is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience and management's estimates. In the Company's pro forma information required under SFAS No. 123 for the periods prior to fiscal year 2006, the Company accounted for stock option forfeitures as they occurred.

The following table shows the effect of the adoption of SFAS No. 123(R) on January 1, 2006, on selected line items in the accompanying financial statements for the three and six months ended June 30, 2006 (in thousands, except per share data):