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

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

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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-19480

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

DELAWARE (State or other jurisdiction of incorporation or organization)	58-1651222 (I.R.S. Employer Identification No.)
1145 SANCTUARY PARKWAY, SUITE 200 ALPHARETTA, GEORGIA (Address of principal executive offices)	30004 (Zip code)

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

FORMER ADDRESS:
2840 MT. WILKINSON PARKWAY
ATLANTA, GEORGIA 30339
(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 [X] No [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as

defined in Rule 12b-2 of the Exchange Act). Yes [X] 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.

TITLE OF CLASS	SHARES OUTSTANDING AT JULY 28, 2004
Common Stock $0.01 Par Value	30,062,465 shares
Non-voting Common Stock $0.01 Par Value	0 Shares

EXPLANATORY NOTE

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, Per-Se Technologies, Inc. hereby amends its Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 in response to certain comments of the staff of the Securities and Exchange Commission in connection with its review of our Registration Statement on Form S-1 (File No. 333-119012) filed on September 15, 2004 and amended on November 23, 2004, January 7, 2005, February 10, 2005 and March 7, 2005. The revisions contained in this Form 10-Q/A do not include the restatement of any financial information previously reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

For convenience and ease of reference, we are filing the amended Quarterly Report in its entirety. Unless otherwise stated, all information contained in this amended Quarterly Report is as of August 9, 2004, the filing date of our original Quarterly Report on Form 10-Q for the quarter ended June 30, 2004. For more current information, readers should refer to the reports and other documents we have filed with or furnished to the Commission subsequent to August 9, 2004.

PER-SE TECHNOLOGIES, INC.

FORM 10-Q/A
FOR THE FISCAL QUARTER ENDED JUNE 30, 2004

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2004	DECEMBER 31, 2003
	(UNAUDITED) (IN THOUSANDS, EXCEPT PAR VALUE DATA)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,698	$ 25,271
Restricted cash	63	66
Total cash and cash equivalents	9,761	25,337
Accounts receivable, billed (less allowances of $3,399 and $4,267 as of June 30, 2004, and December 31, 2003, respectively)	51,485	46,335
Accounts receivable, unbilled (less allowances of $528 as of June 30, 2004, and December 31, 2003)	1,294	1,613
Lloyd's receivable	14,650	17,405
Other	5,604	6,183
Total current assets	82,794	96,873
Property and equipment, net of accumulated depreciation	15,448	16,434
Goodwill, net of accumulated amortization	32,549	32,549
Other intangible assets, net of accumulated amortization	20,543	19,787
Other	5,415	5,881
Assets of discontinued operations, net	--	129
Total assets	$ 156,749	$ 171,653
CURRENT LIABILITIES:		
Accounts payable	$ 4,388	$ 6,587
Accrued compensation	18,764	18,102
Accrued expenses	16,433	19,037
Current portion of long-term debt	--	12,500
	39,585	56,226
Deferred revenue	22,093	20,334
Total current liabilities	61,678	76,560
Long-term debt	125,000	109,375
Other obligations	3,993	2,908
Liabilities of discontinued operations	--	422
Total liabilities	190,671	189,265

STOCKHOLDERS' DEFICIT:		
Preferred stock, no par value, 20,000 authorized; none issued	--	--
Common stock, voting, $0.01 par value, 200,000 authorized, 32,030 and 31,322 issued and outstanding as of June 30, 2004, and December 31, 2003, respectively	320	313
Common stock, non-voting, $0.01 par value, 600 authorized; none issued	--	--
Paid-in capital	791,563	786,297
Warrants	1,495	1,495
Accumulated deficit	(801,855)	(805,286)
Treasury stock at cost, 2,120 and 122 as of June 30, 2004, and December 31, 2003, respectively	(26,417)	(1,303)
Deferred stock unit plan obligation	1,418	1,303
Accumulated other comprehensive loss	(446)	(431)
Total stockholders' deficit	(33,922)	(17,612)
Total liabilities and stockholders' deficit	$ 156,749	$ 171,653

See notes to consolidated financial statements.

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS END JUNE 30,	
	2004	2003	2004	20
	(IN THOUSANDS, EXCEPT PER SHARE DAT			
Revenue	$88,141	$85,456	$172,742	$167
Salaries and wages	51,515	48,622	101,199	96
Other operating expenses	23,949	23,126	47,150	45
Depreciation	1,989	2,367	4,090	4
Amortization	1,854	1,831	3,647	3
Other expenses	2,538	--	6,499	
Operating income	6,296	9,510	10,157	17
Interest expense	1,999	4,179	4,073	8
Interest income	(192)	(58)	(244)	
Loss on extinguishment of debt	5,896	--	5,896	
(Loss) income before income taxes	(1,407)	5,389	432	8
Income tax (benefit) expense	(20)	376	212	
(Loss) income from continuing operations	(1,387)	5,013	220	8
Discontinued operations (see Note 8)				
Loss from discontinued operations, net of tax -- Patient1	--	(599)	(18)	(1
Gain on sale of Patient1, net of tax	3,821	--	3,755	

Loss from discontinued operations, net of tax -- Business1	--	(1,110)	(303)	(1
Loss on sale of Business1, net of tax	--	--	(130)	
Loss from discontinued operations, net of tax -- Other	(30)	(223)	(93)	
	3,791	(1,932)	3,211	(3
Net income	$ 2,404	$ 3,081	$ 3,431	$ 4
Net income per common share -- basic:				
(Loss) income from continuing operations	$ (0.04)	$ 0.16	$ --	$
Loss from discontinued operations, net of tax -- Patient1	--	(0.02)	--	(
Gain on sale of Patient1, net of tax	0.12	--	0.12	
Loss from discontinued operations, net of tax -- Business1	--	(0.04)	(0.01)	(
Loss on sale of Business1, net of tax	--	--	--	
Loss from discontinued operations, net of tax -- Other	--	--	--	
Net income per common share -- basic	$ 0.08	$ 0.10	$ 0.11	$
Weighted average shares used in computing basic earnings per share	31,530	30,238	31,530	30
Net income per common share -- diluted:				
(Loss) income from continuing operations	$ (0.04)	$ 0.16	$ --	$
Loss from discontinued operations, net of tax -- Patient1	--	(0.02)	--	(
Gain on sale of Patient1, net of tax	0.12	--	0.11	
Loss from discontinued operations, net of tax -- Business1	--	(0.04)	(0.01)	(
Loss on sale of Business1, net of tax	--	--	--	
Loss from discontinued operations, net of tax -- Other	--	--	--	
Net income per common share -- diluted	$ 0.08	$ 0.10	$ 0.10	$
Weighted average shares used in computing diluted earnings per share	31,530	31,866	33,831	31

See notes to consolidated financial statements.

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	(IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net income	$ 3,431	$ 4,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,737	8,489
Loss from discontinued operations	544	3,216
Gain on sale of discontinued operations and other	(3,755)	--
Amortization of deferred financing costs	665	645
Loss on extinguishment of debt	5,896	221
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Restricted cash	--	(143)
Accounts receivable, billed	(5,150)	(4,931)
Accounts receivable, unbilled	319	682
Accounts payable	(2,217)	1,592
Accrued compensation	649	(2,229)
Accrued expenses	933	(1,541)
Deferred revenue	1,759	611
Other, net	(345)	(1,446)
Net cash provided by continuing operations	10,466	10,084
Net cash used for discontinued operations	(512)	(5,593)
Net cash provided by operating activities	9,954	4,491
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,000)	(3,385)
Software development costs	(2,529)	(1,697)
Net proceeds from sale of Patient1 and Business1, net of tax	3,625	--
Proceeds from sale of property and equipment	6	1
Acquisition, net of cash acquired	(1,141)	--
Other	(41)	(38)
Net cash used for continuing operations	(3,080)	(5,119)
Net cash used for discontinued operations	--	(1,865)
Net cash used for investing activities	(3,080)	(6,984)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	125,000	--
Treasury stock purchase	(24,999)	--
Proceeds from the exercise of stock options	5,258	1,139
Debt issuance costs	(5,723)	--
Payments of debt	(121,875)	(15,020)
Other	(108)	152
Net cash used for financing activities	(22,447)	(13,729)
CASH AND CASH EQUIVALENTS:		
Net change	(15,573)	(16,222)
Balance at beginning of period	25,271	46,748
Balance at end of period	$ 9,698	$ 30,526
SUPPLEMENTAL DISCLOSURES:		
Cash paid for:		
Interest	$ 3,494	$ 8,585
Income taxes	194	228

See notes to consolidated financial statements.

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 -- BASIS OF PRESENTATION

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

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

The consolidated financial statements of the Company have been presented to reflect the former operations of the Hospital Services division's Patient1 clinical product line ("Patient1") and Business1-PFM patient accounting product line ("Business1") as discontinued operations. Patient1 was sold effective July 28, 2003, and Business1 was sold effective January 31, 2004. Additionally, the activity related to the Company's former Medaphis Services Corporation ("MSC") and Impact Innovations Group ("Impact") businesses, which were sold in 1998 and 1999, respectively, are also reflected as discontinued operations for all periods presented (refer to Note 8 for additional information).

NOTE 2 -- STOCK-BASED COMPENSATION PLANS

At June 30, 2004, the Company has four stock-based compensation plans. The Company accounts for its stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"). No significant stock-based compensation cost is reflected in the Company's Statements of Operations, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), to this stock-based compensation.

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,

	2004	2003	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income as reported	$ 2,404	$ 3,081	$ 3,431	$ 4,918
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$(1,037)	$(1,201)	$(1,971)	$(2,507)
Pro forma net income	$ 1,367	$ 1,880	$ 1,460	$ 2,411
Net income per common share:				
Basic -- as reported	$ 0.08	$ 0.10	$ 0.11	$ 0.16
Basic -- pro forma	$ 0.04	$ 0.06	$ 0.05	$ 0.08
Diluted -- as reported	$ 0.08	$ 0.10	$ 0.10	$ 0.16
Diluted -- pro forma	$ 0.04	$ 0.06	$ 0.04	$ 0.08

NOTE 3 -- ADDITIONAL PROCEDURES

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

The Company recorded costs related to the additional procedures totaling approximately $2.5 million and $6.5 million during the three and six months ended June 30, 2004, respectively, and included these costs in other expenses in the Company's Consolidated Statements of Operations. In segment reporting, these expenses are classified in the Corporate segment.

NOTE 4 -- REVENUE RECOGNITION

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

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

NOTE 5 -- EARNINGS PER SHARE

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

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

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

occur from common shares issuable through stock options and warrants. The following sets forth the computation of basic and diluted net income per share for the three-and six months ended June 30, 2004, and 2003:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income	$2,404	$3,081	$3,431	$4,918
Common shares outstanding:				
Shares used in computing net income per common share -- basic	31,530	30,238	31,530	30,205
Effect of potentially dilutive stock options and warrants	--	1,628	2,301	1,247
Shares used in computing net income per common share -- diluted	31,530	31,866	33,831	31,452
Net income per common share:				
Basic	$ 0.08	$ 0.10	$ 0.11	$ 0.16
Diluted	$ 0.08	$ 0.10	$ 0.10	$ 0.16

Options and warrants to purchase 7.0 million shares of Common Stock outstanding during the three months ended June 30, 2004, were excluded from the computation of diluted earnings per share due to their antidilutive effect as a result of the Company's loss from continuing operations for the period. The conditions required for conversion of the Company's Convertible Subordinated Debentures (see Note 10) have not been met, therefore, the Company did not assume conversion of the Debentures in calculating diluted EPS for the six months ended June 30, 2004.

Options and warrants to purchase 1.7 million shares of Common Stock outstanding during the six months ended June 30, 2004, were excluded from the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the average market price of the common shares, and therefore, the effect would have been antidilutive.

Options and warrants to purchase 3.6 and 4.0 million shares of Common Stock outstanding during the three and six months ended June 30, 2003, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the average market price of the common shares, and therefore, the effect would have been antidilutive.

NOTE 6 -- FOREIGN CURRENCY TRANSLATION AND COMPREHENSIVE INCOME

The functional currency of the Company's operations outside of the United States is the local country's currency. Consequently, assets and liabilities of operations outside the United States are translated into dollars using exchange

rates at the end of each reporting period. Revenue and expenses are translated at the average exchange rates prevailing during the period. Cumulative translation gains and losses are reported in accumulated other comprehensive loss. In the three and six month periods ended June 30, 2004 and 2003, the only component of other comprehensive loss was the net foreign currency translation.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Net foreign currency translation......................	$13	$(30)	$(15)	$(139)

NOTE 7 -- ACQUISITIONS

On May 28, 2004, the Company entered into a five-year contract to provide print and mail services for a new customer. As part of the transaction, the Company purchased substantially all of the production assets and personnel of that customer's hospital and physician patient statement and paper claims print and mail business for cash consideration of approximately $1.1 million. In addition, the Company recorded acquisition liabilities of approximately $1.0 million associated with the transaction.

The Company recorded the acquisition using the purchase method of accounting and, accordingly, has preliminarily allocated the purchase price to the assets acquired and liabilities assumed based on their estimated fair market value at the date of acquisition. Approximately $1.9 million of the purchase price was allocated to a finite-lived intangible asset with a five-year life. The remaining $0.2 million of the purchase price was allocated to tangible assets acquired. The operating results of the acquisition are included in the Company's Consolidated Statements of Operations from the date of acquisition in the Hospital Services division. The Company has not yet obtained all the information related to acquisition liabilities required to finalize the purchase price allocation.

The pro-forma impact of this acquisition is immaterial to the financial statements of the Company and therefore has not been presented.

NOTE 8 -- DISCONTINUED OPERATIONS AND DIVESTITURES

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

adjustments and on May 21, 2004, the arbitrator awarded the Company approximately $4.3 million. On June 1, 2004, the Company received payment of approximately $4.5 million, which included interest of approximately $0.2 million. The Company recognized an additional gain on sale of approximately $3.8 million, net of taxes of approximately $0.2 million, when the cash payment was received.

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

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

PER-SE TECHNOLOGIES, INC. AND SUBSIDIARIES

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

Summarized operating results for the discontinued operations are as follows:

	THREE MONTHS ENDED JUN			
	2004			
	PATIENT1	BUSINESS1	TOTAL	PATIENT
	(IN THOUSANDS)			
Revenue	$ --	$ --	$ --	$6,613
Income (loss) from discontinued operations before income taxes	$ --	$ --	$ --	$ (577
Income tax expense	--	--	--	22
Income (loss) from discontinued operations, net of tax	$ --	$ --	$ --	$ (599

	SIX MONTHS ENDED JUNE			
	2004			
	PATIENT1	BUSINESS1	TOTAL	PATIENT1
	(IN THOUSANDS)			

Revenue	$ --	$ 106	$ 106	$13,080
Loss from discontinued operations before income taxes	$(18)	$(303)	$(321)	$(1,066)
Income tax expense	--	--	--	42
Loss from discontinued operations, net of tax	$(18)	$(303)	$(321)	$(1,108)

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

	AS OF	
	JUNE 30, 2004	DECEMBER 31, 2003
	BUSINESS1	BUSINESS1
	(IN THOUSANDS)	
Current assets	$ --	$129
Property and equipment	--	--
Other long-term assets	--	--
Assets of discontinued operations	$ --	$129
Current liabilities	$ --	$422
Deferred revenue	--	--
Other long-term liabilities	--	--
Liabilities of discontinued operations	$ --	$422

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

During the six months ended June 30, 2004, and 2003, the Company incurred expenses of approximately $0.1 million and $0.2 million, respectively, which were primarily legal costs, associated with MSC and Impact. Pursuant to APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB No. 30"), the consolidated financial statements of the Company are presented to reflect the activity associated with MSC and Impact as discontinued operations for all periods presented.

NOTE 9 -- LEGAL MATTERS

PENDING LEGAL MATTERS

The Company is subject to claims, litigation and official billing inquiries

arising in the ordinary course of its business. These matters include, but are not limited to, lawsuits brought by former customers with respect to the operation of the Company's business. The Company has also received written demands from customers and former customers that have not resulted in legal action. Within the Company's industry, federal and state civil and criminal laws govern medical billing and collection activities. These laws provide for various fines, penalties, multiple damages, assessments and sanctions for violations, including possible exclusion from federal and state healthcare payer programs.

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

SETTLED LEGAL MATTERS

On May 10, 2004, the Company reached a settlement with the Company's former insurance carrier, Certain Underwriters at Lloyd's of London (collectively "Lloyd's"). In the settlement, Lloyd's agreed to pay the Company $20 million in cash by July 9, 2004. Lloyd's also agreed to defend, settle or otherwise resolve at their expense the two remaining pending claims covered under the errors and omissions ("E&O") policies issued to the Company by Lloyd's. In exchange, the Company provided Lloyd's with a full release of all E&O and directors and officers and company reimbursement ("D&O") policies. The California Superior Court retained jurisdiction to enforce any aspect of the settlement agreement.

As of the settlement date, the Company had an $18.3 million receivable from Lloyd's, of which approximately $4.9 million represented additional amounts to be paid by the Company under prior E&O settlements covered by Lloyd's. Effective on May 12, 2004, as a result of negotiations among the Company, Lloyd's, and a party to a prior E&O settlement with the Company, the Lloyd's settlement was amended to reduce by $3.8 million the additional amounts to be paid by the Company under the prior E&O settlements covered by Lloyd's. This amendment reduced the amount of cash payable by Lloyd's to the Company in the settlement from $20 million to $16.2 million, and reduced the amount of the Company's receivable from Lloyd's by $3.8 million. On July 7, 2004, pursuant to the settlement, as amended, Lloyd's paid the Company $16.2 million in cash. As of the payment date, the Company had an approximately $14.7 million receivable from Lloyd's and will recognize a gain of approximately $1.5 million on the settlement in the third quarter of 2004. The Company previously anticipated recognizing a gain of approximately $1.7 million. The actual gain of approximately $1.5 million reflects additional legal expenses of approximately $0.2 million incurred prior to the payment date associated with prior E&O claims.

NOTE 10 -- LONG-TERM DEBT

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

On August 12, 2003, the Company commenced a cash tender offer for its then-outstanding $160 million of Notes. On September 11, 2003, the Company repurchased $143.6 million of the Notes that were tendered at the redemption price of 102.625% of the principal amount, as required under the Indenture governing the Notes, and accrued interest of approximately $1.0 million. The

remaining $16.4 million of the Notes were retired on

September 18, 2003, through a call initiated by the Company on August 12, 2003, at the redemption price of 102.375% of the principal amount plus accrued interest of approximately $10,000.

On September 11, 2003, the Company entered into a $175 million Credit Agreement (the "Credit Agreement"), consisting of a $125 million Term Loan B (the "Term Loan B") and a $50 million revolving credit facility (the "Revolving Credit Facility"). The Company had approximately $118.8 million outstanding under the Term Loan B as of June 30, 2004, under a LIBOR-based interest contract bearing interest at 5.36%. The Company has had no borrowings outstanding under the Revolving Credit Facility since its inception.

On June 30, 2004, the Company issued $125 million aggregate principal amount of 3.25% Convertible Subordinated Debentures due 2024 (the "Debentures") to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. The Debentures are convertible into shares of the Company's Common Stock at an initial conversion rate of 56.0243 shares per $1,000 principal amount (a conversion price of approximately $17.85) once the Company's Common Stock share price reaches 130% of the conversion price, or a share price of approximately $23.20. The Debentures mature on June 30, 2024, and are unsecured. Interest on the Debentures is payable semiannually at the rate of 3.25% per annum on June 30 and December 30 of each year, beginning on December 30, 2004. The Company may redeem the Debentures either in whole or in part beginning July 6, 2009. The holders may require the Company to repurchase the Debentures on June 30, 2009, 2014, and 2019 or upon a fundamental change as defined in the indenture. The Company used the proceeds from issuance of the Debentures, together with cash on hand, to retire the $118.8 million outstanding under the Term Loan B as well as to repurchase, for approximately $25 million, an aggregate of approximately 2.0 million shares of the Company's outstanding common stock, at the market price of $12.57 per share, in negotiated transactions concurrently with the Debentures offering. In addition, the Company incurred expenses associated with the retirement of the Term Loan B of approximately $5.9 million, which included the write-off of approximately $3.5 million of deferred debt issuance costs, which are included in loss on extinguishment of debt in the Company's Consolidated Statements of Operations.

In connection with the sale of the Debentures, the Company agreed to file with the SEC within 90 days after the original issuance of the Debentures, and to use its commercially reasonable efforts to cause to become effective within 210 days after the original issuance of the Debentures, a shelf registration statement with respect to the resale of the Debentures and the common stock issuable upon conversion of the Debentures. If the Company does not fulfill certain of its obligations under the registration rights agreement including the timely filing and effective date of the shelf registration statement, it will be required to pay additional interest to holders of Debentures until the shelf registration statement is effective.

On June 30, 2004, the Company also amended the Revolving Credit Facility to increase its capacity from $50 million to $75 million, to extend its maturity to three years, and to lower the interest rate from LIBOR plus amounts ranging from 3.0% to 3.5% to LIBOR plus amounts ranging from 2.5% to 3.0%. The Company did not incur any borrowings under the Revolving Credit Facility in connection with the retirement of the Term Loan B or the share repurchase.

All obligations under the Revolving Credit Facility are fully and

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

The Revolving Credit Facility contains financial and other restrictive covenants, including, without limitation, those restricting additional indebtedness, lien creation, dividend payments, asset sales and stock offerings, and those requiring a minimum net worth, maximum leverage and minimum fixed charge coverage,

each as defined in the Revolving Credit Facility. The Company was in compliance with all applicable covenants as of June 30, 2004.

The Company intends to use the Revolving Credit Facility, as needed, for future investments in its operations, including capital expenditures, strategic acquisitions, to secure its letters of credit, and other general corporate purposes.

NOTE 11 -- INCOME TAXES

Income tax (benefit) expense, which was primarily related to state and local income taxes, was approximately ($20,000) and $0.2 million for the three and six months ended June 30, 2004, respectively, as compared to income tax expense of approximately $0.4 million and $0.7 million for the same periods in 2003. The Company's estimated federal income tax expense for the three and six month periods ended June 30, 2004, is offset by the release of an equal amount of the Company's valuation allowance. As of June 30, 2004, the Company's remaining net deferred tax asset was fully offset by a valuation allowance. Realization of the net deferred tax asset is dependent upon the Company generating sufficient taxable income prior to the expiration of the federal net operating loss carryforwards. The Company will adjust this valuation reserve accordingly if, during future periods, management believes the Company will generate sufficient taxable income to realize the net deferred tax asset.

NOTE 12 -- RESTRUCTURING EXPENSES

The amount of lease termination costs associated with a 1995 restructuring applied against the reserve in the six months ended June 30, 2004, is as follows:

	RESERVE BALANCE DECEMBER 31, 2003	COSTS APPLIED AGAINST RESERVE	RESERVE BALANCE JUNE 30, 2004
		(IN THOUSANDS)	
Lease termination costs................	$1,430	$(141)	$1,289

During the six months ended June 30, 2004, the Company incurred approximately $47,000 of restructuring expenses related to the realignment of the Company into the Physician Services and Hospital Services divisions.

NOTE 13 -- SEGMENT REPORTING

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

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

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

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

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)		(IN THOUSANDS)	
Revenue:				
Physician Services	$66,075	$64,083	$129,258	$126,152
Hospital Services	25,446	24,750	50,217	47,916
Eliminations	(3,380)	(3,377)	(6,733)	(6,614)
	$88,141	$85,456	$172,742	$167,454
Segment operating expenses:				
Physician Services	$58,958	$56,320	$116,188	$111,054
Hospital Services	19,078	18,847	38,047	37,443
Corporate	7,189	4,156	15,083	8,061
Eliminations	(3,380)	(3,377)	(6,733)	(6,614)
	$81,845	$75,946	$162,585	$149,944

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)		(IN THOUSANDS)	
Segment operating income:				
Physician Services	$ 7,117	$ 7,763	$ 13,070	$ 15,098
Hospital Services	6,368	5,903	12,170	10,473
Corporate	(7,189)	(4,156)	(15,083)	(8,061)
	$ 6,296	$ 9,510	$ 10,157	$ 17,510
Interest expense	$ 1,999	$ 4,179	$ 4,073	$ 8,661
Interest income	$ (192)	$ (58)	$ (244)	$ (166)

Loss on extinguishment of debt	$ 5,896	$ --	$ 5,896	$ 221
(Loss) income before income taxes	$(1,407)	$ 5,389	$ 432	$ 8,794
Depreciation and amortization:				
Physician Services	$ 2,341	$ 2,658	$ 4,765	$ 5,372
Hospital Services	1,380	1,361	2,700	2,689
Corporate	122	179	272	428
	$ 3,843	$ 4,198	$ 7,737	$ 8,489
Capital expenditures and capitalized software development costs:				
Physician Services	$ 1,080	$ 1,322	$ 2,690	$ 2,243
Hospital Services	1,387	1,869	2,537	2,696
Corporate	298	125	302	143
	$ 2,765	$ 3,316	$ 5,529	$ 5,082

	AS OF	
	JUNE 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Identifiable assets:		
Physician Services	$ 65,499	$ 63,222
Hospital Services	60,383	58,021
Corporate	30,867	50,281
Discontinued operations	--	129
	$156,749	$171,653

NOTE 14 -- SUBSEQUENT EVENTS

On July 30, 2004, the Company relocated its principal executive office to Alpharetta, GA. The Company entered into a noncancelable operating lease for that office space in February 2004 which will expire in June 2014. The new landlord will assume the payments for the lease of the Company's former office space; however, the Company will record a one-time non-cash expense of approximately $1.0 million upon its exit of the former office facility.

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

DESCRIPTION OF BUSINESS

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

services and products through its two operating divisions: Physician Services and Hospital Services.

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

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

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

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

GENERAL OVERVIEW

Management believes the key elements for assessing the Company's performance are the ability to generate stable and improving operating profit margins on the Company's existing business, and to generate margin expansion through higher contribution margins on incremental revenue growth. Higher contribution margins on incremental revenue are generally achieved by leveraging the Company's existing infrastructure and resources. The assessment of the Company's performance sometimes involves evaluating the business excluding non-operational items that may be incurred.

Consolidated revenue for the three months ended June 30, 2004, increased approximately 3% as compared to the same period of 2003 primarily due to the implementation of the record level of net new business sold in the Physician

Services division during the first quarter of 2004. Consolidated operating margins declined from 11.1% in 2003 to 7.1% in 2004 primarily due to the expenses of $6.5 million associated with the additional procedures as part of the year-end 2003 audit. Excluding these expenses, operating profit generated from the business was

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

Improvements in the Company's capital structure during 2003 decreased interest expense during the second quarter of 2004 by $2.2 million compared to the prior year period. This decrease in interest expense contributed positively to cash provided by continuing operations during the first six months of 2004. Net cash provided by continuing operations was $10.5 million in the current year compared to $10.1 million in the prior year period. Current year cash flow includes the $6.0 million use of cash on a year-to-date basis related to the additional procedures as part of the year-end 2003 audit.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2004, AS COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

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

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
	(IN THOUSANDS)	
Physician Services	$66,075	$64,083
Hospital Services	25,446	24,750
Eliminations	(3,380)	(3,377)
	$88,141	$85,456

Revenue for the Physician Services division increased approximately 3% in the three months ended June 30, 2004, as compared to the same period in 2003. Pricing for the division's services and products was stable compared to the prior year period. The revenue increase is due to the implementation of net new business sold during the first quarter of 2004 as well as in prior periods. Net new business sold includes the annualized revenue value of new contracts signed in a period, less the annualized revenue value of terminated business in that same period. Net backlog at June 30, 2004, was approximately $3 million, compared to approximately $5 million at March 31, 2004. The decrease in net backlog is a result of the volume of new business implementations during the three months ended June 30, 2004. Net backlog represents the annualized revenue related to new contracts signed with the business still to be implemented, less the annualized revenue related to existing contracts where discontinuance notification has been received and the customer has yet to be phased out. The

Company focuses on maintaining a positive net backlog and believes it is a useful indicator of future revenue growth.

Revenue for the Hospital Services division increased approximately 3% for the three months ended June 30, 2004, as compared to the same period in 2003. Pricing for the division's services and products was stable compared to the prior year period. Revenue growth for the division's revenue cycle management products was approximately 4% during the current year quarter compared to the prior year period, primarily due to a five-year contract the division signed during the quarter to provide print and mail services for a new customer, which positively impacted revenue in the quarter. As part of the transaction, the Company acquired substantially all of the production assets and personnel of that customer's hospital and physician patient statement and paper claims print and mail business. Revenue growth in the division's resource management products was approximately 1% primarily due to previously unbilled maintenance for certain software customers that is being recognized upon receipt of payment. Medical transaction volume increased approximately 9% for the period over the same period of 2003. Revenue growth does not necessarily correlate directly to transaction volume due to the mix of services and products sold by the division. The Company believes transaction volume is a useful indicator of future revenue growth as business is implemented into the division's recurring revenue model.

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

Segment Operating Income. Segment operating income is segment revenue less segment operating expenses, which include salaries and wages expense, other operating expenses, depreciation, amortization and other expenses. Segment operating income, classified by the Company's divisions, is as follows:

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
	(IN THOUSANDS)	
Physician Services	$ 7,117	$ 7,763
Hospital Services	6,368	5,903
Corporate	(7,189)	(4,156)
	$ 6,296	$ 9,510

Physician Services' segment operating income decreased approximately 8% in the three months ended June 30, 2004, compared to the same period in 2003, resulting in operating margins of approximately 10.8% in the three months ended June 30, 2004, versus approximately 12.1% in the same period in 2003. Margins for the current year period were negatively impacted by costs associated with the implementation of the record level of net new business sold during the first quarter of 2004 of approximately $12 million.

Hospital Services' segment operating income increased approximately 8% in the three months ended June 30, 2004, compared to the same period in 2003, resulting in operating margins of approximately 25.0% versus approximately 23.9%

in the prior year period. The operating margin improvement is attributable to the previously unbilled maintenance revenue for certain software customers that is being recognized upon receipt of payment.

Corporate overhead expenses, which include certain executive and administrative functions, increased approximately 73% or approximately $3.0 million in the three months ended June 30, 2004, compared to the same period in 2003. The increase is attributable to approximately $2.5 million of expenses incurred in 2004 to perform the additional procedures discussed below and increased litigation expenses of approximately $0.5 million in 2004 related to the attempt by the Company's former underwriter's, Lloyd's of London, to rescind certain insurance policies (refer to Note 9 of Notes to Financial Statements for additional information).

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

The Company recorded costs related to the additional procedures totaling approximately $2.5 million during the three months ended June 30, 2004, and included these costs in other expenses in the Company's Consolidated Statements of Operations. In segment reporting these costs are classified in the Corporate segment.

Interest. Interest expense was approximately $2.0 million for the three months ended June 30, 2004, as compared to $4.2 million for the same period in 2003. The decrease is attributable to the retirement of $50 million of long-term debt in the first nine months of 2003, the repayment of $3.1 million of long-term debt during the fourth quarter of 2003, the repayment of $3.1 million of long-term debt during the first quarter of 2004 and entering into a new Credit Agreement in September 2003 at substantially lower interest rates (fixed 9.5% rate in the second quarter of 2003 compared to a LIBOR plus 4.25% rate, or approximately 5.34%, in the second quarter of 2004). Interest income was $0.2 million for the three-months ended June 30, 2004 as compared to $0.1 million for the same period in 2003.

Loss on Extinguishment of Debt. During the three months ended June 30, 2004, in connection with the retirement of the Company's then-outstanding $118.8 million under the Term Loan B component of the Credit Agreement (the "Term Loan B"), the Company wrote off approximately $3.5 million of deferred debt issuance

costs associated with the Term Loan B. Additionally, the Company incurred a prepayment penalty of approximately $2.4 million due to the early retirement of the Term Loan B.

Income Taxes. Income tax (benefit) expense, which was primarily related to state and local income taxes, was approximately ($20,000) and $0.4 million for the three months ended June 30, 2004, and 2003, respectively. The Company's estimated federal income tax expense for the three months ended June 30, 2004, is offset by the release of an equal amount of the Company's valuation allowance. As of June 30, 2004, the Company's net deferred tax asset was fully offset by a valuation allowance. Realization of the net deferred tax asset is dependent upon the Company generating sufficient taxable income prior to the

expiration of the federal net operating loss carryforwards. The Company will adjust this valuation reserve accordingly if, during future periods, management believes the Company will generate sufficient taxable income to realize the net deferred tax asset.

Discontinued Operations. In June 2003, the Company announced that it agreed to sell Patient1 to Misys Healthcare Systems, a division of Misys plc ("Misys") for $30 million in cash. Patient1 was the Company's only clinical product line and its sale allowed the Company to better focus on optimizing reimbursement and improving administrative efficiencies for physician practices and hospitals. The sale was completed on July 28, 2003. The Company recognized a gain on the sale of Patient1 of approximately $10.4 million, net of taxes of approximately $0.5 million, subject to closing adjustments, in 2003. Net proceeds on the sale of Patient1 were approximately $27.9 million, subject to closing adjustments. The Company and Misys entered into binding arbitration regarding the final closing adjustments and on May 21, 2004, the arbitrator awarded the Company approximately $4.3 million. On June 1, 2004, the Company received payment of approximately $4.5 million, which included interest of approximately $0.2 million. The Company recognized an additional gain on sale of approximately $3.8 million, net of taxes of approximately $0.2 million, when the cash payment was received.

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

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

Summarized operating results for the discontinued operations are as follows:

	THREE MONTHS ENDED JUNE 30,				
	2004			2003	
	PATIENT1	BUSINESS1	TOTAL	PATIENT1	BUSINESS
			(IN THOUSANDS)		
Revenue	$--	$--	$--	$6,613	$ 16
Loss from discontinued operations before income taxes	$--	$--	$--	$ (577)	$(1,110
Income tax expense	--	--	--	22	--
Loss from discontinued operations, net of tax	$--	$--	$--	$ (599)	$(1,110

SIX MONTHS ENDED JUNE 30, 2004, AS COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

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

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	(IN THOUSANDS)	
Physician Services	$129,258	$126,152
Hospital Services	50,217	47,916
Eliminations	(6,733)	(6,614)
	$172,742	$167,454

Revenue for the Physician Services division increased approximately 2% in the six months ended June 30, 2004, as compared to the same period in 2003. Pricing for the division's services and products was stable compared to the prior year period. The revenue increase is due to the implementation of net new business sold during the first six months of 2004 of $15 million as well as in prior periods. Net new business sold is defined as the annualized revenue value of new contracts signed in a period, less the annualized revenue value of terminated business in that same period. Revenue also increased due to one additional business day in the six months ended June 30, 2004, compared to the prior year. Net backlog at June 30, 2004, was approximately $3 million, compared to the negative backlog of approximately $2 million at December 31, 2003. The increase in net backlog is a result of the level of net new business sold during the six months ended June 30, 2004. Net backlog represents the annualized revenue related to new contracts signed with the business still to be implemented, less the annualized revenue related to existing contracts where discontinuance notification has been received and the customer has yet to be phased out. The Company focuses on maintaining a positive net backlog and believes it is a useful indicator of future revenue growth.

Revenue for the Hospital Services division increased approximately 5% for the six months ended June 30, 2004, as compared to the same period in 2003. Pricing for the division's services and products was stable compared to the prior year period. Revenue growth for the division's revenue cycle management products was approximately 4% during the first six months of 2004 compared to the prior year period, primarily due to a five-year contract the division signed during the quarter to provide print and mail services for a new customer. As part of the transaction, the Company acquired substantially all of the production assets and personnel of that customer's hospital and physician patient statement and paper claims print and mail business. Revenue growth in the division's resource management products was approximately 6%, primarily due to an increase in software maintenance revenue attributable to previously unbilled maintenance for certain software customers that is being recognized upon receipt of payment. Medical transaction volume increased approximately 7% for the period over the same period of 2003. Revenue growth does not necessarily correlate directly to transaction volume due to the mix of services and products sold by the division. The Company believes transaction volume is a useful indicator of future revenue growth as business is implemented into the

division's recurring revenue model.

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

Segment Operating Income. Segment operating income is segment revenue less segment operating expenses, which include salaries and wages expense, other operating expenses, depreciation, amortization and other expenses. Segment operating income, classified by the Company's divisions, is as follows:

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	(IN THOUSANDS)	
Physician Services	$ 13,070	$ 15,098
Hospital Services	12,170	10,473
Corporate	(15,083)	(8,061)
	$ 10,157	$ 17,510

Physician Services' segment operating income decreased approximately 13% in the six months ended June 30, 2004, compared to the same period in 2003, resulting in operating margins of approximately 10.1% in the six months ended June 30, 2004, versus approximately 12.0% in the same period in 2003. Margins for the current year period were negatively impacted by costs associated with the implementation of the net new business sold during the first quarter of 2004 of approximately $12 million, which included one significant contract with transition costs that resulted in below target operating margins.

Hospital Services' segment operating income increased approximately 16% in the six months ended June 30, 2004, compared to the same period in 2003, resulting in operating margins of approximately 24.2% in the six months ended June 30, 2004, versus approximately 21.9% in the prior year period. The operating margin improvement is attributable to the previously unbilled maintenance revenue for certain software customers that is being recognized upon receipt of payment.

Corporate overhead expenses, which include certain executive and administrative functions, increased approximately 87% or approximately $7.0 million in the six months ended June 30, 2004, compared to the same period in 2003. The increase is attributable to approximately $6.5 million of expenses incurred in 2004 to perform the additional procedures discussed below and increased litigation and insurance expenses of approximately $0.7 million in 2004 related to the attempt by the Company's former underwriter's, Lloyd's of London, to rescind certain insurance policies (refer to Note 9 of Notes to Financial Statements for additional information) partially offset by $0.2 million of cost reductions.

Other Expenses. As a result of allegations of improprieties made during 2003 and 2004, the Company's external auditors advised the Company and the Audit Committee of the Board of Directors that additional procedures should be

performed related to the allegations. These additional procedures were required due to Statement of Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit, ("SAS No. 99"), which became effective for periods beginning on or after December 15, 2002. Due to the volume and, in some cases, vague nature of many of the allegations, the scope of the additional procedures was broad and extensive.

The Company recorded costs related to the additional procedures totaling approximately $6.5 million during the six months ended June 30, 2004, and included these costs in other expenses in the Company's Consolidated Statements of Operations. In segment reporting these costs are classified in the Corporate segment.

Interest. Interest expense was approximately $4.1 million for the six months ended June 30, 2004, as compared to $8.7 million for the same period in 2003. The decrease is attributable to the retirement of $50 million of long-term debt in the first nine months of 2003, the repayment of $3.1 million of long-term debt during the fourth quarter of 2003, the repayment of $3.1 million of long-term debt during the first quarter of 2004 and entering into a new Credit Agreement in September 2003 at substantially lower interest rates (fixed 9.5% rate in the first six months of 2003 compared to a LIBOR plus 4.25% rate, or approximately 5.38%, in the first six months of 2004). Interest income was $0.2 million for the six-month periods ended June 30, 2004 and 2003.

Loss on Extinguishment of Debt. During the six months ended June 30, 2004, in connection with the retirement of the Company's then-outstanding $118.8 million under the Term Loan B, the Company wrote off

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approximately $3.5 million of deferred debt issuance costs associated with the Term Loan B. Additionally, the Company incurred a prepayment penalty of approximately $2.4 million due to the early retirement of the Term Loan B.

During the six months ended June 30, 2003, the Company wrote off approximately $0.2 million of deferred debt issuance costs associated with the original issuance of the Notes (refer to Note 10 of Notes to Financial Statements for additional information) related to the repurchase of $15.0 million of the Notes at par plus accrued interest of approximately $0.1 million, which is included in loss on extinguishment of debt in the Company's Consolidated Statements of Operations.

Income Taxes. Income tax expense, which was primarily related to state and local income taxes, was approximately $0.2 million and $0.7 million for the six months ended June 30, 2004, and 2003, respectively. The Company's estimated federal income tax expense for the six months ended June 30, 2004, is offset by the release of an equal amount of the Company's valuation allowance. As of June 30, 2004, the Company's net deferred tax asset was fully offset by a valuation allowance. Realization of the net deferred tax asset is dependent upon the Company generating sufficient taxable income prior to the expiration of the federal net operating loss carryforwards. The Company will adjust this valuation reserve accordingly if, during future periods, management believes the Company will generate sufficient taxable income to realize the net deferred tax asset.

Discontinued Operations. In June 2003, the Company announced that it agreed to sell Patient1 to Misys Healthcare Systems, a division of Misys plc ("Misys") for $30 million in cash. Patient1 was the Company's only clinical product line and its sale allowed the Company to better focus on optimizing reimbursement and improving administrative efficiencies for physician practices and hospitals. The sale was completed on July 28, 2003. The Company recognized a gain on the sale of Patient1 of approximately $10.4 million, net of taxes of

approximately $0.5 million, subject to closing adjustments, in 2003. Net proceeds on the sale of Patient1 were approximately $27.9 million, subject to closing adjustments. The Company and Misys entered into binding arbitration regarding the final closing adjustments and on May 21, 2004, the arbitrator awarded the Company approximately $4.3. On June 1, 2004, the Company received payment of approximately $4.5 million, which included interest of approximately $0.2 million. The Company recognized an additional gain on sale of approximately $3.8 million, net of taxes of approximately $0.2 million, when the cash payment was received.

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

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

Summarized operating results for the discontinued operations are as follows:

	SIX MONTHS ENDED JUNE			
	2004			
	PATIENT1	BUSINESS1	TOTAL	PATIENT1
	(IN THOUSANDS)			
Revenue	$ --	$ 106	$ 106	$13,080
Loss from discontinued operations before income taxes	$(18)	$(303)	$(321)	$(1,066)
Income tax expense	--	--	--	42
Loss from discontinued operations, net of tax	$(18)	$(303)	$(321)	$(1,108)

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

	AS OF	
	JUNE 30, 2004	DECEMBER 31, 2003
	BUSINESS1	BUSINESS1

	(IN THOUSANDS)	
Current assets	$ --	$129
Property and equipment	--	--
Other long-term assets	--	--
Assets of discontinued operations	$	$129
Current liabilities	$ --	$422
Deferred revenue	--	--
Other long-term liabilities	--	--
Liabilities of discontinued operations	$ --	$422

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

During the six months ended June 30, 2004, and 2003, the Company incurred expenses of approximately $0.1 million and $0.2 million, respectively, which were primarily legal costs, associated with MSC and Impact. Pursuant to APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB No. 30"), the consolidated financial statements of the Company are presented to reflect the activity associated with MSC and Impact as discontinued operations for all periods presented.

LIQUIDITY AND CAPITAL RESOURCES

The following table is a summary of the Company's cash balances as of June 30, 2004, and December 31, 2003, and cash flows from continuing operations for the six months ended June 30, 2004, and 2003, (in thousands):

	JUNE 30, 2004	DECEMBER 31, 2003
Unrestricted cash and cash equivalents	$9,698	$25,271

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
Cash provided by continuing operations	$ 10,466	$ 10,084
Cash used for investing activities from continuing operations	$ (3,080)	$ (5,119)
Cash used for financing activities from continuing operations	$(22,447)	$(13,729)

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

Restricted cash of $63,000 at June 30, 2004 and of $66,000 at December 31, 2003, represents amounts collected on behalf of certain Physician Services and Hospital Services clients, a portion of which is held in trust until it is remitted to such clients.

During the six months ended June 30, 2004, the Company generated approximately $10.5 million in cash from continuing operations, which includes cash generated from normal operations offset by cash payments related to additional procedures necessary under SAS No. 99 totaling approximately $6.0 million (refer to "Note 3 -- Additional Procedures" in the Company's Notes to Consolidated Financial Statements for more information), the payment of approximately $5.4 million in expenses and legal settlements related to the matter with Lloyd's of London (refer to "Note 9 -- Legal Matters" in the Company's Notes to Consolidated Financial Statements for more information) and interest payments of approximately $3.5 million.

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During the six months ended June 30, 2003, cash provided by continuing operations was approximately $10.1 million, which includes cash provided by normal operations offset by the payment of approximately $3.9 million in expenses and legal settlements related to the matter with Lloyd's of London (refer to "Note 9 -- Legal Matters" in the Company's Notes to Consolidated Financial Statements for more information) and interest payments of approximately $8.6 million.

During the six months ended June 30, 2004, the Company used approximately $3.1 million in cash from investing activities from continuing operations consisting primarily of approximately $5.5 million for capital expenditures and investment in software development costs and approximately $1.1 million of cash used for acquisitions, partially offset by approximately $3.6 million of net proceeds related to the final closing adjustments from the sale of Patient1 to Misys Healthcare Systems in July 2003.

During the six months ended June 30, 2003, the Company used approximately $5.1 million in cash from investing activities from continuing operations primarily for capital expenditures and software development costs.

During the six months ended June 30, 2004, the Company used approximately $22.4 million in cash from financing activities. On June 30, 2004 the Company raised $125 million from the sale of 3.25% Convertible Subordinated Debentures due 2024 (the "Debentures") and retired the $118.8 million then outstanding under the Term Loan B concurrently with the completion of the Convertible Debenture offering. On June 30, 2004, the Company also completed an amendment to the Revolving Credit Facility to increase its capacity and lower the Company's borrowing rate. The Revolving Credit Facility's capacity was expanded from $50 million to $75 million and the facility's maturity was extended to three years. The Company incurred a prepayment penalty on the early retirement of the Term Loan B totaling $2.4 million in addition to financing costs of $3.3 million related to the Debentures offering and amendment to the Revolving Credit Facility. The Company also repurchased, for approximately $25 million, an aggregate of approximately 2.0 million shares of the Company's outstanding common stock, at the market price of $12.57 per share, in negotiated transactions concurrently with the Debentures offering. The cost of the refinancing and purchase of common stock is offset by proceeds from the exercise of stock options of approximately $5.3 million.

During the six months ended June 30, 2003, the Company used approximately $13.7 million in cash from financing activities primarily related to the acceptance of the Company's offer to repurchase $15 million of the Company's then-outstanding 9 1/2% Senior Notes due 2005, partially offset by proceeds from

the exercise of stock options of approximately $1.1 million.

For more information about the Company's long-term debt, refer to "Note 10 -- Long-Term Debt" in the Company's Notes to Consolidated Financial Statements.

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

On May 10, 2004, the Company reached a settlement with the Company's former insurance carrier, Certain Underwriters at Lloyd's of London (collectively "Lloyd's"). In the settlement, Lloyd's agreed to pay the Company $20 million in cash by July 9, 2004. Lloyd's also agreed to defend, settle or otherwise resolve at their expense the two remaining pending claims covered under the errors and omissions ("E&O") policies issued to the Company by Lloyd's. In exchange, the Company provided Lloyd's with a full release of all E&O and directors and officers and company reimbursement ("D&O") policies. The California Superior Court retained jurisdiction to enforce any aspect of the settlement agreement.

As of the settlement date, the Company had an $18.3 million receivable from Lloyd's, of which approximately $4.9 million represented additional amounts to be paid by the Company under prior E&O settlements covered by Lloyd's. Effective on May 12, 2004, as a result of negotiations among the Company, Lloyd's, and a party to a prior E&O settlement with the Company, the Lloyd's settlement was amended to reduce by $3.8 million the additional amounts to be paid by the Company under the prior E&O settlements covered by Lloyd's. This amendment reduced the amount of cash payable by Lloyd's to the Company in the settlement from $20 million to $16.2 million, and reduced the amount of the Company's Lloyd's receivable by $3.8 million. On July 7, 2004, pursuant to the settlement as amended, Lloyd's paid the Company $16.2 million in cash. As of the

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payment date, the Company had an approximately $14.7 million receivable from Lloyd's and will recognize a gain of approximately $1.5 million on the settlement in July 2004. The Company previously anticipated recognizing a gain of approximately $1.7 million. The actual gain of approximately $1.5 million reflects additional legal expenses of approximately $0.2 million incurred prior to the payment date associated with prior E&O claims.

During the course of litigation the Company was required to fund the legal costs and any litigation settlements related to E&O claims covered by the Lloyd's E&O policies. The negative impact of these items on the Company's cash flow for the six months ended June 30, 2004, was approximately $5.4 million, which consisted of approximately $1.8 million related to the cost of pursuing the litigation against Lloyd's and approximately $3.6 million related to the funding of legal costs and litigation settlements covered by the Lloyd's E&O policies. The negative impact of these items on the Company's cash flow for the six months ended June 30, 2003, was approximately $3.9 million, which consisted of approximately $1.6 million related to insurance premium increases for new insurance coverage and the cost of pursuing the litigation against Lloyd's and approximately $2.3 million related to the funding of legal costs and litigation settlements covered by the Lloyd's E&O policies. As of June 30, 2004, and as of the settlement date, the Company had incurred approximately $18.3 million of costs related to claims under Lloyd's policies that are classified as Lloyd's receivable in the Company's Consolidated Balance Sheet. As of June 30, 2004, approximately $14.2 million of these costs have been paid by the Company.

For the six months ended June 30, 2004 and 2003, the Company incurred approximately $1.5 million and $2.2 million, respectively, of expenses related

to the cost of pursuing the litigation against Lloyd's in each period and, in 2003, significantly increased insurance premiums. These costs have been reflected in the Company's Corporate segment. In the Consolidated Statements of Operations these costs are included in other operating expenses.

As mentioned previously, the cost to perform the additional procedures associated with preparing the year-end 2003 financial statements was approximately $6.5 million and was recorded during the six months ended June 30, 2004. These costs are reflected in other expenses in the Company's Consolidated Statements of Operations.

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

FORWARD-LOOKING STATEMENTS

Certain statements included in the Notes to Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report including but not limited to certain statements set forth under the captions "Note 8 -- Discontinued Operations and Divestitures," "Note 9 -- Legal Matters," "Note 10 -- Long-Term Debt," "Note 11 -- Income Taxes," "Results of Operations" and "Liquidity and Capital Resources," are "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Forward-looking statements include the Company's expectations with respect to meritorious defenses to the claims and other issues asserted in pending legal matters, the effect of industry and regulatory changes on the Company's customer base, the impact of revenue backlog on future revenue, fair market value less costs to sell of Business1, overall profitability and the availability of capital. Although the Company believes that the statements it has made are based on reasonable assumptions, they are based on current information and beliefs and, accordingly, the Company can give no assurance that its expectations will be achieved. In addition, these statements are subject to factors that could cause actual results to differ materially from those suggested by the forward-looking statements. These factors include, but are not limited to, factors identified below under the caption "Factors That May Affect Future Results of Operations,

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Financial Condition or Business" and "Quantitative and Qualitative Disclosures about Market Risk." The Company disclaims any responsibility to update any forward-looking statements.

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

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

IF THE COMPANY FAILS TO MAINTAIN AN EFFECTIVE SYSTEM OF INTERNAL CONTROLS, THE

COMPANY MAY NOT BE ABLE TO ACCURATELY REPORT THE COMPANY'S FINANCIAL RESULTS ON A TIMELY BASIS. AS A RESULT, CURRENT AND POTENTIAL STOCKHOLDERS COULD LOSE CONFIDENCE IN THE COMPANY'S FINANCIAL REPORTING WHICH WOULD HARM THE COMPANY'S BUSINESS AND THE TRADING PRICE OF THE COMPANY'S STOCK.

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

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

The Company has approximately $125 million of long-term indebtedness and, as a result, has obligations to make interest and principal payments on that debt. If unable to make the required debt payments, the Company could be required to reduce or delay capital expenditures, sell certain assets, restructure or refinance the Company's indebtedness, or seek additional equity capital. The Company's ability to make payments on the Company's debt obligations will depend on future operating performance, which may be affected by conditions beyond the Company's control.

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

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

The Company may not be able successfully to resolve such legal matters, or other legal matters that may arise in the future. In the event of an adverse outcome with respect to such legal matters or other legal matters in

which the Company may become involved, the Company's insurance coverage may not fully cover any damages assessed against the Company. Although the Company maintains all insurance coverage in amounts that it believes is sufficient for its business, such coverage may prove to be inadequate or may become unavailable on acceptable terms, if at all. A successful claim brought against the Company, which is uninsured or under-insured, could materially harm the Company's business, results of operations or financial condition.

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

The physician business management outsourcing business, especially for revenue cycle management, is highly competitive. The Company competes with regional and local physician reimbursement organizations as well as physician groups that provide their own business management services in house. Successful competition within this industry is dependent on numerous industry and market conditions. Potential industry and market changes that could adversely affect the Company's ability to compete for business management outsourcing services include an increase in the number of local, regional or national competitors providing comparable services and new alliances between healthcare providers and third-party payers in which healthcare providers are employed by such third-party payers.

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

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

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

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

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

THE HEALTHCARE MARKETPLACE IS CHARACTERIZED BY CONSOLIDATION, WHICH MAY RESULT IN FEWER POTENTIAL CUSTOMERS FOR THE COMPANY'S SERVICES.

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

systems may result in a decrease in demand for the Company's business management outsourcing services for particular physician practices.

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

The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. Federal and state legislatures have periodically considered programs to reform or amend the U.S. healthcare system at both the federal and state level and to change healthcare financing and reimbursement systems, such as the Balanced Budget Act of 1997 and the Medicare Modernization Act of 2003. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Current or future government regulations or healthcare reform measures may affect the Company's business. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in the Company's products and services.

Medical billing and collection activities are governed by numerous federal and state civil and criminal laws. Federal and state regulators use these laws to investigate healthcare providers and companies that provide billing and collection services. In connection with these laws, the Company may be subjected to federal or state government investigations and possible penalties may be imposed upon the Company, false claims actions may have to be defended, private payers may file claims against the Company, and the Company may be excluded from Medicare, Medicaid or other government-funded healthcare programs.

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

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

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

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

Passage of HIPAA is part of a wider healthcare reform initiative. The Company expects that the debate on healthcare reform will continue. The Company also expects that the federal government as well as state governments will pass laws and issue regulations addressing healthcare issues and reimbursement of healthcare

providers. The Company cannot predict whether the government will enact new legislation and regulations, and, if enacted, whether such new developments will affect the Company's business.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE SENSITIVITY

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

The Company has the option of entering into loans based on LIBOR or base rates under the Revolving Credit Facility. As such, the Company could experience fluctuations in the interest rates if the Company were to borrow amounts under the Revolving Credit Facility, the Company could experience fluctuations in interest rates under the Revolving Credit Facility. The Company has not incurred any borrowings under the Revolving Credit Facility.

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

EXCHANGE RATE SENSITIVITY

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

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of June 30, 2004, and have concluded that these disclosure controls and procedures were operating effectively at the reasonable assurance level at June 30, 2004.

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

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

its internal control over financial reporting to address the identified material weakness, including implementing additional controls and procedures related to the review of accruals and reserves, changing reporting relationships for divisional accounting personnel, and adding new accounting personnel. The Company expects that such improvements will be fully implemented by the end of the third quarter of 2004.

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

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

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is included in "Note 9 -- Legal Matters" of Notes to Consolidated Financial Statements in Item 1 of Part I.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On June 30, 2004, the Company issued $125 million aggregate principal amount of 3.25% Convertible Subordinated Debentures Due 2024 (the "Debentures") to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Debentures are convertible into the Company's common stock at an initial conversion rate of 56.0243 shares per $1,000 principal amount of Debentures. This conversion rate represents a share price of approximately $17.85, a premium of 42% over the closing price of the common stock on the date the offering of Debentures was priced. The Debentures will be convertible when the share price reaches 130% of the conversion price, or a share price of approximately $23.21, and in other circumstances to be set forth in the Indenture relating to the Debentures. The Debentures mature on June 30, 2024, and are unsecured. Interest on the Debentures is payable semiannually at the rate of 3.25% per annum on June 30 and December 30 of each year, beginning on December 30, 2004. Beginning on July 6, 2009, the Company may redeem some or all of the Debentures for cash. In addition, on June 30, 2009, 2014 and 2019, or upon a fundamental change as defined in the Indenture, holders may require the Company to repurchase their Debentures for cash. The Company used the proceeds from issuance of the Debentures, together with cash on hand, to retire its $118.8 million outstanding Term Loan B as well as to repurchase, for approximately $25 million, an aggregate of approximately 2.0 million shares of the Company's outstanding common stock that were sold short by purchasers of the Debentures in negotiated transactions concurrently with the offering of the Debentures. Banc of America Securities LLC, Wachovia Securities and Jeffries & Co., Inc. acted as initial purchasers of the Debentures.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on June 7, 2004. The following directors were elected at such meeting:

NOMINEE	BOARD TERM	VOTES FOR	VOTES WITHHELD
Stephen A. George, M.D.	One Year	22,719,651	5,500,915
David R. Holbrooke, M.D........................	One Year	22,599,722	5,620,844
Craig Macnab..................................	One Year	22,599,692	5,620,874
David E. McDowell.............................	One Year	22,719,649	5,500,917
Philip M. Pead................................	One Year	22,719,594	5,500,972
John C. Pope..................................	One Year	22,524,972	5,695,594
C. Christopher Trower.........................	One Year	22,599,678	5,620,888
Jeffrey W. Ubben..............................	One Year	28,190,784	29,782

No other matters were voted upon at the meeting.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits

EXHIBIT NUMBER		DOCUMENT
2.1	--	Asset Purchase Agreement dated as of June 18, 2003, among Misys Hospital Systems, Inc., Misys Healthcare Systems(International) Limited, Misys plc, Registrant, and PST Products, LLC., together with the First Amendment thereto dated as of June 28, 2003 (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K filed on August 5,2003).
3.1	--	Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K for the year ended December 31, 1999).
3.2	--	Restated By-laws of Registrant, as amended (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K for the year ended December 31, 2003).
4.1	--	Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company (including form of rights certificates) (incorporated by reference to Exhibit 4 to Current Report on Form 8-K filed on February 12, 1999).
4.2	--	First Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of May 4, 2000 (incorporated by reference to Exhibit 4.4 to Quarterly Report of Form 10-Q for the quarter ended March 31, 2000).
4.3	--	Second Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of December 6, 2001, to be

		effective as of March 6, 2002 (incorporated by reference to Exhibit 4.12 to Annual Report on Form 10-K for the year ended December 31, 2001).
4.4	--	Third Amendment to Rights Agreement dated as of February 11, 1999, between Registrant and American Stock Transfer & Trust Company, entered into as of March 10, 2003 (incorporated by reference to Exhibit 4.13 to Annual Report on Form 10-K for the year ended December 31, 2002).
4.5	--	Indenture dated as of June 30, 2004, between Registrant and U.S. Bank National Association, as Trustee, relating to Registrant's 3.25% Convertible Subordinated Debentures Due 2024 (incorporated by reference to Exhibit 4.5 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
4.6	--	Resale Registration Rights Agreement dated as of June 30, 2004, between Registrant and Banc of America Securities LLC, as representative of the several initial purchasers of Registrant's 3.25% Convertible Subordinated Debentures Due 2024 (incorporated by reference to Exhibit 4.6 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.1	--	First Amendment to Credit Agreement dated as of June 30, 2004, among Registrant, the Guarantors party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
31.1	--	Certification of Chief Executive Officer pursuant Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	--	Certification of Chief Financial Officer pursuant Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	--	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	--	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(B) Reports on Form 8-K

The Company filed or furnished the following reports on Form 8-K during the quarter ended June 30, 2004:

ITEM REPORTED	FINANCIAL STATEMENTS FILED	DATE OF REPORT	DATE FILED OR FURNISHED
Press Release dated April 5, 2004, announcing Company's receipt of a noncompliance notification from Nasdaq because of the delay in filing the Company's 2003 Annual Report on Form 10-K with the SEC..	No	April 5, 2004	April 5, 200
Press Release dated April 19, 2004, announcing an operations update for the quarter ended March 31, 2004..	No	April 19, 2004	April 19, 200

Press Release dated May 13, 2004, announcing that the Company had filed its 2003 Annual Report on Form 10-K with the SEC, as well as the settlement the Company reached with Lloyd's of London........	No	May 13, 2004	May 13, 200
Press Release dated May 27, 2004, announcing the Company's results of operations for the quarterly period ended March 31, 2004......................	No	May 27, 2004	May 27, 200
Press Release dated June 22, 2004, announcing the Company's intention to offer up to $125 million aggregate principal amount of convertible debentures, and its intention to effect a share repurchase of up to $25 million in conjunction with the offering................................	No	June 22, 2004	June 23, 200
Disclosure of certain information contained in the offering memorandum for the Company's offering of up to $125 million aggregate principal amount of convertible subordinated debentures due 2024......	No	June 22, 2004	June 23, 200
Press Release dated June 24, 2004, announcing the Company's pricing of its offering of up to $125 million aggregate principal amount of convertible debentures, including information about its repurchase of shares sold short by purchasers of the debentures in negotiated transactions concurrently with the offering....................	No	June 24, 2004	June 24, 200
Press Release dated June 30, 2004, announcing the Company's completion of its sale of $125 million aggregate principal amount of 3.25% convertible subordinated debentures due 2024, and the completion of an amendment to its senior revolving credit facility..................................	No	June 30, 2004	July 1, 200

SIGNATURES

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

PER SE TECHNOLOGIES, INC.
(Registrant)

By: /s/ CHRIS E. PERKINS

Chris E. Perkins
Executive Vice President and
Chief Financial Officer

By: /s/ RICHARD A. FLYNT

Richard A. Flynt
Vice President and Controller
(Principal Accounting Officer)

Date: March 4, 2005

INDEX TO EXHIBITS

EXHIBIT NUMBER		DOCUMENT
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		Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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