PROXYMED INC /FT LAUDERDALE/
Form 10-K
March 15, 2007

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

# Form 10-K

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

(Mark One)

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| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the fiscal year ended December 31, 2006** |
| | **or** |
| ¨ | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the transition period from to** |

**Commission File Number 000-22052**

# PROXYMED, INC.
*(Exact Name of Registrant as Specified in Its Charter)*

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| **Florida**<br>*(State or Other Jurisdiction of Incorporation or Organization)* | **65-0202059**<br>*(I.R.S. Employer Identification No.)* |
| **1854 Shackleford Court, Suite 200, Norcross, Georgia**<br>*(Address of Principal Executive Offices)* | **30093**<br>*(Zip Code)* |

**Registrant's telephone number, including area code:**
**(770) 806-9918**
**Securities registered pursuant to Section 12(b) of the Act:**
**None**
**Securities registered pursuant to Section 12(g) of the Act:**
**Common Stock, $.001 Par Value**
*(Title of Class)*

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

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

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained herein, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10- K. Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer þ Non-Accelerated Filer ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed using $7.26 per share, the closing price of the registrant’s Common Stock on the NASDAQ Stock Market as of the last business day of the registrant’s most recently completed second fiscal quarter was $95,905,965.

As of March 9, 2007, 13,210,573 shares of the registrant’s Common Stock were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on or about June 1, 2007, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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# PART I

## ITEM 1. BUSINESS

MedAvant Healthcare Solutions (“MedAvant”) is an information technology company that facilitates the exchange of medical claim and clinical information among doctors, hospitals, medical laboratories, pharmacies and insurance payers. MedAvant also enables the electronic transmission of laboratory results and prescription orders.

MedAvant is a trade name of ProxyMed, Inc. which was incorporated in 1989 in Florida as a pharmaceutical services company. In December 2005, ProxyMed began doing business under the new operating name, MedAvant Healthcare Solutions, to unite all business units and employees under one brand identity. The new name was one of several results of a strategic analysis completed in the third quarter of 2005 following the acquisition of seven companies between 1997 and 2004. Unless the context otherwise requires, all references to “we,” “our,” “us,” “Company,” “ProxyMed” or “MedAvant” refer to ProxyMed, Inc. , d/b/a MedAvant Healthcare Solutions, and its subsidiaries.

Whether we’re working with our 450,000 healthcare provider-customers, 42,000 pharmacies, 200 labs or 1,500 insurance payers, our goal is the same: provide the business intelligence necessary to expedite clinical and healthcare transactions. We make the transactions secure, faster, more accurate and more economical by using our processing platform known as PhoenixSM. With this real-time processing system, we provide visibility into an insurance claim’s entire lifecycle, from the time the provider files it to the time the insurance payer reimburses the provider. That information provides data our customers use to improve their business efficiencies. The Phoenix platform is used at less than 40% of capacity, therefore, we can easily scale with future growth.

Management believes MedAvant is the nation’s fourth largest claims processor and is among the top five independent Preferred Provider Organizations (“PPO”). Management believes we are the largest company that facilitates delivery of laboratory results, and we have several larger competitors in the electronic prescription delivery industry.

**<u>Our Values</u>**

A PricewaterhouseCoopers study titled “The Factors Fueling Rising Healthcare Costs 2006,” found that insurance premiums increased 8.8 percent between 2004 and 2005. Nearly half that increase was attributed to Americans accessing the healthcare system more frequently as they grow older, suffer from unhealthy lifestyle challenges such as obesity, and expect new treatments made possible by new technologies.

More Americans accessing the healthcare system results in more claims to file, more lab reports to transfer, more prescriptions to fill and more claims to pay. All of this increase requires more staff to manage and translate that data into useable information. The U. S. Bureau of Labor Statistics expects the number of people working in medical records and as health information technicians to increase 47 percent between 2002 and 2012. Our services automate these office functions so that fewer people can process the same amount, or more, work.

**<u>Terms and Phrases</u>**

As used in this report:

- “Claims processor” means a company that receives electronic health insurance claim information from a provider, checks it for accuracy, transfers the data to a payer and returns transaction details to the provider. These companies are sometimes called clearinghouses.
- “Provider” means any person or facility that provides healthcare services. Examples include, but are not limited to, doctors, therapists, hospitals, clinics, medical laboratories and pharmacies.
- “Payer” means an organization that pays medical insurance claims such as insurance companies, Health Maintenance Organizations, self-insured corporations and Taft-Hartley Plans.
- “Preferred Provider Organization” is a network of providers which accept reduced payments for services rendered in return for more patients being directed to them.
- “Transaction” is the electronic transfer of data. Examples from our business include verification of a patient’s insurance, approvals on referrals to other providers, claim submission, claim status inquiry and remittance information from the payer.



**<u>Description of Business</u>**

We operate in two reportable segments that are separately managed: Transaction Services and Laboratory Communication Solutions. A description of the segments, their primary services or products and our source of revenue in each follows. For more information, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**Transaction Services and Products**

- *Processing claims.* The primary tool our customers use to process claims is an electronic connection supplemented by a real-time web portal called myMedAvant, powered by our Phoenix platform. It offers both standard and premium services and other features such as verifying a patient’s insurance, enrolling with payers, tracking a claim’s progress with the payer and retrieving reports from payers. On average, we processed approximately 3/4 million revenue-related transactions per day in 2006. Providers pay for claims processing based on either a flat monthly fee or a per-transaction fee.
- *Operating a PPO.* Our PPO is called the National Preferred Provider Network (“NPPN™” or “NPPN”) and is

accessed by more than seven million patients, 450,000 physicians, 4,000 acute care facilities and 65,000 ancillary care providers. Services we offer the payer community through NPPN include discounts on fees when a patient uses an out-of-network provider and bill negotiation on non-discounted claims. We generate revenue primarily by charging participating payers a percentage of the savings they receive through NPPN.

- *Providing electronic prescription management*. MedAvants PreScribeTM is a desktop and online application providers use to send new prescriptions and refill requests to more than 42,000 pharmacies across the nation. Providers pay a flat fee, and pharmacy partners pay either a flat monthly fee or a per transaction fee based on transaction types.

**Laboratory Communication Solutions and Products**

- *Printing Technology.* Our intelligent printing technology is integrated into printers for labs to purchase and install in physician offices. This allows for the secure transmittal of laboratory reports. Laboratories also purchase support, maintenance and monitoring programs to manage printers that have our integrated technology.
- *Pilot.* This patent-pending web-enabled device sits in a providers office and is used to transfer lab reports in virtually any format to a printer, a personal computer or a hand-held device. It integrates with most Practice Management Systems and usually saves the provider the cost of a dedicated phone line. Labs either purchase Pilot devices with an annual support program or they subscribe to Pilot with a program that includes support services.
- *Fleet Management System, (FMS).* Labs use this online tool to monitor printers in provider offices and receive alerts for routine problems such as a printer being out of paper or having a paper jam. FMS can also be used to monitor printer inventory and schedule regular maintenance. Labs pay a monthly fee per printer to use FMS.

**Competitive Challenges**

We face significant competition in each of our segments. Emdeon Corporation and McKesson Corporation, which acquired Per-Se Technologies, Inc., (Per-Se) in 2007, are our largest competitors in claims processing. McKesson is also one of our largest customers. They compete on the basis of price and the number of payers which can be accessed through their networks. Larger PPOs and PPOs with broader representations in some geographic areas vie with NPPN. The PPO competition includes MultiPlan, Inc., Beech Street (Concentra), and several other players, but the industry is highly fragmented, and mergers and acquisitions routinely change the face of our PPO competition. Other programs for prescription management and laboratory printing contend for our pharmacy and laboratory services.

See Item 1A, Risk Factors, for more information on competitive challenges and strengths.



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**Competitive Strengths**

We believe we will be successful due primarily to six factors:

- Our technology;
- Our data;
- Our ability to quickly adapt to the marketplace;
- Our expanding direct PPO connections;
- Our independence from payers and providers; and
- Barriers to entry.

**Technology**

The workhorse of our technology is Phoenix, a transaction processing platform using a service-oriented architecture with multiple processing engines. We created Phoenix more than five years ago to handle real-time transactions, as well as the more traditional batch transactions for providers and payers who are not ready for real-time processing of their claim data. Between 1997 and 2006, we acquired nine companies, each with its own technology systems. In 2006, we began moving all transactions to Phoenix to take advantage of its robust capability and dependable output. We currently process all of our transactions on Phoenix.

While examining our technology processes in 2006, we chose to outsource our PPO operations to ppoONE, a Fiserv Company. We believe this decision has created a variable cost structure for this business and will reduce our hardware, software and processing costs, while allowing us to focus on expanding NPPN and providing superior customer support to our clients.

**Our Data**

Having all our transactions on Phoenix means our data is easily accessed and analyzed. Consequently, we offer total visibility into the claims processing cycle. We provide tools for our customers to customize reports from our data and turn it into useable information. We are seeing an increasing demand for this data, and we are exploring ways to capitalize on the demand. Of course, we continue to maintain all personal health information in a manner that is fully secure and compliant with HIPAA.

**Adaptability**

In 2006, we rolled out a premium service for claims submission and processing. This online service features revenue cycle management tools and is called myMedAvant. This is an example of our ability to react to the market. Another example is Pilot, our patent-pending hardware device used to revolutionize lab report delivery for physician offices. Pilot is used by laboratories to print reports in provider offices and was developed internally as a result of listening to our laboratory customers concerns over their ability to print increasingly complicated lab reports with graphs and color charts.

**Expanding Our PPO Direct Connections**

In 2006, we expanded our PPO offerings by acquiring Zeneks, Inc., a Florida company. As a result of acquiring Zeneks, we are now able to help payers negotiate prices on claims that are not discounted through another network. We also expanded our PPO with the purchase of Medical Resource LLC and National Provider Network, Inc., in October 2006. This acquisition increased the number of providers with direct contacts to NPPN and significantly increased NPPN representation in at least six states. Having more direct provider contracts and having better geographic distribution of providers makes our PPO more attractive to payers. While the market for PPO has decreased in recent years with pricing pressures and recent consolidations, we believe that our PPO can expand by increasing the direct provider network offered to payers.

**Independence**

We are independent of payers and vendors. This gives us a unique advantage in this marketplace. MedAvant is not an owner, or subsidiary, of any payer or vendor allowing us to work with any payer or vendor without conflicts of interest. As a result of our independence, providers know our priorities do not favor any specific business partner and it makes us more attractive in the marketplace.



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**Barriers to Entry**

We have expended considerable time, effort and expense developing our infrastructure, relationships and the interoperability of our processing operations. The cost and time demands of development and maintenance of connections from both a technical and relationship perspective represent barriers to entry for many would-be competitors. Additionally, certain of our businesses are heavily regulated by various governmental entities, through HIPAA and other strenuous requirements regarding internal controls and various compliance programs, which we believe are further barriers to entry.

**Sales and Marketing**

We have a direct sales force and account managers with established relationships in this industry. In addition, we partner with vendors who have contacts throughout the provider and payer communities. Most of our marketing is done through those business relationships. We also exhibit at industry trade shows, advertise in industry publications and market through direct mail, webcasts and our website. We significantly changed our sales and account management staff as well as their compensation programs in late 2006 to address our need to acquire and maintain revenue.

**Locations**

Our largest office is in Norcross, Georgia, a suburb of Atlanta. We support our products and services from three other major operational facilities throughout the United States. We operate a secure, third party processing site in Atlanta, Georgia, and a mirrored back-up site in Richardson, Texas.

**Legislation and Regulation**

We and our customers are subject to extensive and frequently changing federal and state healthcare laws and regulations. Political, economic and regulatory influences can fundamentally alter the United States healthcare industry and, in turn, impact our business in unexpected ways. Potential reform legislation that could impact our business may include:

- Mandated basic healthcare benefits;
- Controls on healthcare spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid reimbursement;
- The creation of large insurance purchasing groups;
- Enforcement actions of Federal and State privacy laws;
- Medicare or Medicaid prescription benefit plans;
- State licensing requirements; or
- Patient protection initiatives.

**National Provider Identification**

By May 23, 2007, virtually all providers must use a ten-digit National Provider Identification number (NPI) as a result of a 2004 mandate in the Federal Register. Some small health plans have until 2008 to comply with this rule. In 2006, we invested considerable staff resources preparing for this because our customers currently use a variety of identification number formats. We have modified many of our formats and processes to accommodate this new single identifier and expect to be fully prepared to use NPIs by this deadline. MedAvant has worked closely with the Workgroup for Electronic Data Interchange (WEDI) and other industry groups in their efforts to convince the U.S. Department of Health and Human Services to grant a contingency that would provide more time for providers and payers to become compliant. If a contingency period is not granted, we could experience a disruption in service to our customers if providers do not have their NPIs assigned by the deadline or if payers are not prepared to receive NPIs on their transactions by the deadline.

**HIPAA**

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) was enacted to incrementally implement specified healthcare reforms. HIPAAs Privacy Rule imposes extensive requirements on healthcare providers, healthcare clearinghouses and health plans. These Covered Entities must implement standards to protect and guard against the misuse of individually identifiable health information. Certain functions of ours have been or may be deemed to constitute a clearinghouse as defined by the Privacy Rule. Among other things, the Privacy Rule requires us to adopt written privacy procedures, adopt sufficient and reasonable safeguards and provide employee training with respect to compliance.



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We have been certified as HIPAA compliant by the Electronic Healthcare Network Accreditation Commission. In addition, our transaction processing utilizes Edifecs, one of the industrys recognized leaders in HIPAA validation processing systems. The privacy regulations are broad in scope, however, and they require constant vigilance for ongoing compliance. We also may be subject to state privacy laws, which may be more stringent than HIPAA in some cases. We are committed to maintaining our compliance with all applicable privacy laws.

HIPAA also mandates the use of standard transactions for electronic claims and certain other healthcare transactions. The U.S. Department of Health and Human Services published regulations to govern eight of the most common electronic transactions involving health information. As a clearinghouse, we must comply with these regulations.

HIPAAs Security Rule imposes standards for the security of electronic protected health information. We have implemented physical, technical and administrative safeguards for the protection of electronic protected health information. The Security Rule also introduced the concept of an addressable implementation standard, which requires ongoing vigilance to ensure that employed safeguards are sufficient given current technology capabilities, threats and reasonable industry expectations. Current internal and external security auditing procedures have addressed both the required and the addressable implementation specifications by conducting risk assessments and implementing appropriate safeguards to mitigate any apparent gaps.

**Gramm-Leach-Bliley**

Some of our customers may also be subject to the federal Gramm-Leach-Bliley Act or state laws and regulations implemented pursuant thereto, relating to certain disclosures of nonpublic personal health information and nonpublic personal financial information by insurers and health plans.

**Internet Privacy and Regulation**

Regulatory developments related to the Internet may significantly impact our business because we offer a number of Internet-related products. The extent to which consumer protection and privacy laws apply to the Internet is an area of uncertainty, but they may affect our ability to collect, store, use and transmit personal information.

**Patient/Consumer Protection Initiatives**

State and federal legislators and regulators have proposed initiatives to protect consumers covered by managed care plans and other health coverage. These initiatives may result in the adoption of laws related to timely claims payment and review of claims determinations. These laws may impact the manner in which we perform services for our clients.

**Provider Contracting and Claims Regulation**

Some state legislatures have enacted statutes that govern the terms of provider network discount arrangements and/or restrict unauthorized disclosure of such arrangements. Legislatures in other states are considering adoption of similar laws. Although we believe that we operate in a manner consistent with applicable provider contracting laws, there can be no assurance that we will be in compliance with laws or regulations to be promulgated in the future or with new interpretations of existing laws.

Many of our customers perform services that are governed by numerous other federal and state civil and criminal laws and in recent years have been subject to heightened scrutiny of claims practices, including fraudulent billing and payment practices. Many states also have enacted regulations requiring prompt claims payment. To the extent that our customers reliance on any of the services we provide contributes to any alleged violation of these laws or regulations, we could be subject to indemnification claims from our customers or be included as part of an investigation of our customers practices. Federal and state consumer laws and regulations may apply to us when we provide claims services and a violation of any of these laws could subject us to fines or penalties.

**Licensing Regulation**

We are subject to certain state licensing requirements for the services we provide through NPPN. Some states require our PPO business to formally register and file an annual or one-time accounting of networks and providers with which we contract. Given the rapid evolution of healthcare regulation, it is possible that we will be subject to future licensing requirements in any of the states where we currently perform services, or one or more states may deem our activities to be analogous to those engaged in by other participants in the healthcare industry that are now subject to



licensing and other requirements, such as third party administrator or insurance regulations. Moreover, laws governing participants in the healthcare industry are not uniform among states. As a result, we may have to undertake the expense and difficulty of obtaining any required licenses and there is a risk that we would not be able to meet the licensing requirements imposed by a particular state. Additionally, we may have to tailor our products on a state-by-state basis for our customers to be in compliance with applicable state and local laws and regulations.

**Summary**

We anticipate that Congress and state legislatures will continue to review and assess alternative healthcare delivery systems and payment methods, as well as Internet and healthcare privacy legislation and that public debate of these issues will likely continue in the future. Because of uncertainties as to these reform initiatives and their enactment and implementation, we cannot predict which, if any, such reform proposals will be adopted, when they may be adopted or what impact they may have on us.

While we believe our operations are in material compliance with applicable laws as currently interpreted, the regulatory environment in which we operate may change significantly in the future, which could restrict our existing operations, expansion, financial condition or opportunities for success.

Additional HIPAA and privacy compliance information can be found on our website at www.medavanthealth.com.

**Intellectual Property and Technology**

In large part, our success is dependent on our proprietary information and technology. We rely on a combination of contracts, copyright, trademark and trade secret laws and other measures to protect our proprietary information and technology. We have rights under a number of patent applications filed by us or our acquired entities, in addition to rights under various trademarks and trademark applications. We have acquired a number of copyright registrations covering our various software and proprietary products. As part of our confidentiality procedures, we generally enter into nondisclosure agreements with our employees, distributors, certain vendors and customers, and limit access to and distribution of our software, databases, documentation and other proprietary information. We cannot assure that the steps taken by us will be adequate to deter misappropriation of our proprietary rights or that third parties will not independently develop substantially similar products, services and technology. Although we believe our products, services and technology do not infringe on any proprietary rights of others, as the number of software products available in the market increases and the functions of those products further overlap, we and other software and Internet developers may become increasingly subject to infringement claims. These claims, with or without merit, could result in costly litigation or might require us to enter into royalty or licensing agreements, which may not be available on terms acceptable to us.

**Employees**

As of February 28, 2007, we employed 336 employees. We are not and never have been a party to any collective bargaining agreements. We consider our relationship with our employees to be good. During the fourth quarter of 2005, we contracted with Administaff, Inc. ("Administaff"). Administaff is a leading professional employer organization serving as a full service human resources department. Our relationship with Administaff has dramatically improved our employee relationships and improved our internal communications.

**Available Information**

Our Internet address is www.medavanthealth.com. The website is not part of this report. We make available, free of charge on or through our Internet website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”).

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## ITEM 1A. RISK FACTORS

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

As discussed under the caption, “Cautionary Statement Pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995” in Item 7, certain statements in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report that are not related to historical results are forward-looking statements. Forward-looking statements present our expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They frequently are accompanied by words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of similar meaning. Actual results may differ materially from those projected or implied in the forward-looking statements. Subsequent written and oral forward looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors set forth below and elsewhere in this report and in other reports filed by us with the SEC. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

**RISKS RELATED TO OUR BUSINESS**

**General**

**We incurred net losses in 2004, 2005 and 2006. We may not be able to generate positive earnings in the future and this could have a detrimental effect on the market price of our stock.**

In the last three years, we have incurred substantial losses, including losses of $3.8 million for the fiscal year ended December 31, 2004, $105.3 million for the fiscal year ended December 31, 2005, and $6.6 million in the fiscal year ended December 31, 2006. As of December 31, 2004, December 31, 2005, and December 31, 2006, we had accumulated deficits of $104.1 million, $209.4 million and $216.0 million, respectively. Continued shortfalls could deplete our cash reserves and availability via our credit facility, making it difficult for us to obtain credit at a favorable rate or to continue investing in infrastructure we need to compete in the future. Continued shortfalls may also cause our share price to decline.

**Our auditors have issued a going concern opinion. This means we may not be able to achieve our objectives and may have to suspend or cease operations.**

Our independent public accounting firm has issued a going concern opinion as of March 15, 2007, with respect to our consolidated financial statements for the year ended December 31, 2006. If we cannot raise additional capital or generate sufficient revenues, or sufficiently reduce costs, to operate profitably, we may have to suspend or cease operations or significantly dilute our stockholders' equity holdings.

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

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

**We have senior and subordinated debt that matures during 2008 and 2010.**

We have senior and subordinated debt in the aggregate principal amount of $29.6 million that matures through 2010, of which $15.1 million is due by December 2008. We currently do not have the resources to repay this debt in full. If we are unable to obtain additional funding to repay or refinance our senior and subordinated debt prior to maturity, the lenders could foreclose and take certain other action against us. The effect on our operations and stock price could be significantly negative and we may be unable to continue as a going concern. Laurus Master Fund, Ltd. (Laurus), our



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largest lender, has the subjective and unilateral ability to call our debt. Such an event would negatively impact our ability to operate as a solvent and on-going concern.

**Our insurance coverage may not be adequate.**

We have purchased directors and officers, casualty, property and general liability coverage which management believes is adequate for our requirements. However, should we incur a loss that exceeds our coverage, it could negatively impact our results of operations and cash flows.

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

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

**Transaction Services Segment**

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

Over the last few years, some payers have reduced their rebate rate paid to companies which process claims, and some have elected to stop offering rebates. If this trend continues, we will be forced to shift the cost of these claims from the payers to the submitting providers. If we are not successful in shifting this revenue burden to our submitting providers, our revenue will be reduced.

**As electronic transaction processing penetrates the healthcare industry more extensively, we will face increasing pressure to reduce our prices which may cause us to no longer be competitive as a result of potential declining margins.**

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

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

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

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

As we make future acquisitions, our business will be dependent on the successful consolidation of those acquired platforms with our current systems. If there is significant disruption to our customers, our business or our operations could be harmed. Additionally, if our Phoenix platform, the backbone of our transaction processing business, becomes unstable or does not provide satisfactory outcomes to a significant number of clients, our business and our operations will be harmed.



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

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

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

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

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

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

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

For the years ended December 31, 2006, 2005 and 2004, approximately 6%, 6% and 8%, respectively, of consolidated revenues and 7%, 10% and 10%, respectively, of transaction services revenue were from Per-Se Technologies.

**The adoption of electronic processing of clinical transactions in the healthcare industry is proceeding slowly; thus, the future of our business could be uncertain and this may have an adverse impact on our operations.**

Our strategy anticipates that electronic processing of clinical healthcare transactions, including transactions involving prescriptions and laboratory results, will become more widespread and that providers and third-party institutions increasingly will use electronic transaction processing networks for the processing and transmission of data. The rate at which providers adopt the use of electronic transmission of clinical healthcare transactions (and, in particular, the use of the Internet to transmit them) continues to be slow and the continued or accelerated conversion from paper-



based transaction processing to electronic transaction processing in the healthcare industry, using proprietary healthcare management systems or the Internet, may not occur.

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

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

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

**Our businesses have many competitors.**

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

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

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

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

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

**Payers are requiring PPOs to have more direct access to provider networks.**

Over the past few years, payers have shifted more of their business to PPOs that have a higher percentage of direct contracts with their provider network as opposed to using other PPOs to access the same provider network. Our inability to directly recruit new providers or our inability to acquire another PPO in order to increase our direct connectivity to providers could harm our ability to sell our PPO access to new Payers. Additionally, our existing Payers could decide to move their business to another PPO with more direct provider connectivity and our results of operations could decline.



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**Our PPO accounts receivable are subject to adjustment.**

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

**Laboratory Communication Services Segment:**

**Our Laboratory Communication Services Segment has a high customer concentration.**

For the years ended December 31, 2006 and 2005 and 2004, approximately 8%, 7% and 9% of consolidated revenues, and 45%, 50% and 45% of Laboratory Communication segment revenues, respectively were from a single customer for the sale, lease, and service of communication devices. The potential loss of this customer would materially affect the Company's Laboratory Communication Services' operating results.

## RISKS RELATED TO ACQUISITIONS

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

We have undertaken several acquisitions in the past few years as part of a strategy to expand our business, and we may continue in the future to acquire businesses, assets, services, products and technologies from other persons or entities. The anticipated efficiencies and other benefits to be derived from future acquisitions may not be realized if we are unable to successfully integrate the acquired businesses into our operations, including customers, personnel, product lines and technology. We are in the process of integrating the customers, products, and technology of our acquisition of Medical Resources, LLC into our operations. We may not be able to successfully integrate any future acquired businesses into our operations. Integration of acquired businesses can be expensive, time consuming and may strain our resources. Integration may divert management's focus and attention from other business concerns and expose us to unforeseen liabilities and risks. We may also lose key employees, strategic partners and customers as a result of our inability to successfully integrate in a timely manner or as a result of relationships the acquired businesses may have with our competitors or the competitors of our customers and strategic partners. Some challenges we face in successfully integrating future acquired businesses into our operations include:

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

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

In pursuing our acquisition strategy, our investigations of the acquisition candidates may fail to discover certain undisclosed liabilities of the acquisition candidates or may determine that certain contingent liabilities are indeterminable. If we acquire a company having undisclosed liabilities, as a successor owner, we may be responsible for such undisclosed liabilities. If we acquire a company with liabilities that are indeterminable at the time of the acquisition, we may be required to make subsequent payments that could have a material adverse effect on our business. Furthermore, the introduction of new products and services from acquired companies may have a greater risk of undetected or unknown errors, "bugs" or liabilities than our historic products.



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**We may lose customers as a result of acquisitions which may have an adverse impact on our business or operations.**

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

## RISKS RELATED TO OUR INDUSTRY

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

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

HIPAA also mandates the use of standard transactions, standard provider identifiers, security requirements and other provisions for electronic healthcare claims transactions. Approximately 40% of our inbound transactions from our provider customers are received in a legacy format and are translated, by us, on behalf of these customers.

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

We, and all companies, are responsible for collecting and sending NPI numbers in compliance with the Federal Register mandate by May 23, 2007. We may not be able to maintain compliance with HIPAA standards for transaction formats, provider identifiers and security. Any failure to be in compliance could result in regulatory penalties assessed against us, weaken demand for our affected services and may have an adverse impact on our business and operations.

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

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

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

Many of our products and services are geared toward the Internet and electronic healthcare information markets. The perceived difficulty of securely transmitting confidential information has been a significant barrier to conducting e-commerce and engaging in sensitive communications over the Internet. Our strategy relies, in part, on the use of the



Internet to transmit confidential information. Any well-publicized compromise of Internet security may deter providers from using the Internet to conduct transactions that involve transmitting confidential healthcare information and this may result in significantly lower revenues and operating results.

## RISKS RELATED TO OUR TECHNOLOGY

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

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

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

Our success is dependent on our ability to deliver high-quality, uninterrupted computer networking and hosting, requiring us to protect our computer equipment and the information stored on servers against damage by fire, natural disaster, power loss, telecommunications failures, unauthorized intrusion and other catastrophic events.

We operate production networks in our Norcross, Georgia; Santa Ana, California; and Middletown, New York, facilities. Any damage or failure resulting in prolonged interruptions in our operations could cause our customers to seek alternative providers of our services. In particular, a system failure, if prolonged, could result in lost revenues, loss of customers and damage to our reputation, any of which could cause our business to materially suffer. While we carry property and business interruption insurance to cover operations, the coverage may not be adequate to compensate us for losses that may occur.

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

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

**The protection of our intellectual property requires substantial resources.**

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



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**We may be subject to infringement claims.**

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

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

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

**RISKS RELATED TO OUR STOCK**

**We may issue additional shares that could adversely affect the market price of our Common Stock.**

We currently have 16,789,427 shares of authorized but unissued Common Stock and 1,998,000 shares of authorized but unissued Preferred Stock. Certain events over which our shareholders have no control could result in the issuance of additional shares of our Common Stock which would dilute our shareholders ownership percentage in us and could adversely affect the market price of our Common Stock. We may issue additional shares of Common Stock or Preferred Stock for many reasons including:

- raising additional capital or financing acquisitions;
- exercise, conversion, or exchange of outstanding options, warrants and shares of convertible preferred stock;
- in lieu of cash payment of dividends; or
- our articles of incorporation, as amended, authorize the issuance of up to 30,000,000 shares of Common Stock and 2,000,000 shares of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors.

Pursuant to our articles of incorporation, as amended, we may issue shares of our Common and Preferred Stock in the future that will dilute our existing shareholders without prior notice or approval of our shareholders. Additionally, our board of directors does not intend to solicit further approval from our shareholders prior to designating the rights, preferences or privileges of any such preferred stock, including, without limitation, rights as to dividends, conversion, voting, liquidation preference or redemption, which in each case may be superior to the rights of our Common Stock. The rights of the holders of any of our Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of our Preferred Stock could have the effect of discouraging, delaying or preventing a change of control and preventing holders of our Common Stock from realizing a premium on their shares.

**The trading price of our Common Stock may be volatile.**

The stock market, including the NASDAQ Stock Market, on which the shares of our Common Stock are listed, has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. The market price of our Common Stock, as with many emerging healthcare and technology companies, is likely to be volatile and could continue to be susceptible to wide price fluctuations due to a number of internal and external factors, many of which are beyond our control, including:

- quarterly variations in operating results and overall financial condition;
- economic and political developments affecting the economy as a whole;



- our largest holder liquidating their position would likely serve to compress our share price;
- short-selling programs;
- the stock market's perception of the healthcare technology industry as a whole;
- changes in earnings estimates by analysts;
- additions or departures of key personnel; and
- sales of substantial numbers of shares of our Common Stock, or securities convertible into or exercisable for our Common Stock.

**We do not plan on declaring or paying dividends on our Common Stock.**

We have never declared or paid a dividend on our Common Stock, nor do we have any plans to do so in the future.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None



## ITEM 2. PROPERTIES

**Properties**

Our significant offices are located as follows:

| Business Segment | Location (1) | Description |
|---|---|---|
| **Transaction Services** | Norcross, Georgia | Corporate headquarters/operations office/data center |
| | Santa Ana, California | Operations office/data center |
| | Middletown, New York | Operations office/data center |

| | | |
|---|---|---|
| | Plantation, Florida | Operations office |
| | Tampa, Florida | Operations office |
| **Laboratory Communication Solutions** | Jeffersonville, Indiana | Operations office/warehouse |

(1) All locations are leased from third parties.

We also maintain portions of our Phoenix network at a secure, third-party co-location center in Atlanta, Georgia. In addition, we have a mirrored data center in Richardson, Texas, with disaster recovery capability. Our leases and subleases generally contain renewal options and require us to pay base rent, plus property taxes, maintenance and insurance. We consider our present facilities adequate for our operations.

## ITEM 3. LEGAL PROCEEDINGS

We were named as a defendant in an action filed in December 2005, in the Eastern District of Wisconsin by Metavante Corporation, (Metavante). Metavante claimed that our use of the name MedAvant and the logo in connection with healthcare transaction processing infringed trademark rights allegedly held by Metavante. Metavante sought unspecified compensatory damages and injunctive relief. The District Court issued a Decision and Order denying Metavantes motion for a preliminary injunction. On October 27, 2006, Metavante Corporation and MedAvant entered into a Settlement and Release Agreement, the terms of which did not have a material adverse effect on our business or financial condition.

We were named as a defendant in an action filed in July 2006, in the United States District Court of New Jersey by MedAvante, Inc., (MedAvante). MedAvante claimed that our use of the names MedAvant and MedAvant Healthcare Solutions infringed trademark rights allegedly held by MedAvante. MedAvante sought unspecified compensatory damages and injunctive relief. On February 12, 2007, the District Court issued a settlement order. The specific terms of the proposed Settlement and Release Agreement are currently being negotiated, but the total value of the settlement is expected to be approximately $1.3 million, of which $1.0 million will be covered by insurance proceeds. The Company has accrued a preliminary estimate of $0.3 million (net of expected insurance proceeds) based upon these negotiations.

From time to time, we are a party to other legal proceedings in the course of our business. We, however, do not expect such other legal proceedings to have a material adverse effect on our business or financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2006.



## PART II

## ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock trades on the national NASDAQ Stock Market under the symbol PILL. The following table sets forth the high and low sale prices of our Common Stock for the periods indicated.

| | | | | |
|---|---|---|---|---|
| 2006: | | | | |
| First Quarter | $ | 7.50 | $ | 3.71 |
| Second Quarter | $ | 8.36 | $ | 6.26 |
| Third Quarter | $ | 7.30 | $ | 4.00 |
| Fourth Quarter | $ | 6.00 | $ | 3.88 |
| 2005: | | | | |
| First Quarter | $ | 10.74 | $ | 7.81 |
| Second Quarter | $ | 8.69 | $ | 5.75 |
| Third Quarter | $ | 7.97 | $ | 5.01 |
| Fourth Quarter | $ | 5.34 | $ | 3.42 |

On March 9, 2007, the last reported sale price of our Common Stock was $5.01 per share. As of March 9, 2007, we estimate that there were approximately 344 registered holders of record of our Common Stock. We believe that, in addition, there are beneficial owners of our Common Stock where shares are held in “street name,” and consequently we are unable to determine the actual number of beneficial holders of our Common Stock. Below is our share’s performance graph, displaying the past five years’ share’s relative performance. The corporations included in the Peer Group were Allscripts Healthcare Solutions, Emdeon Corp., Per-Se and Trizetto Group, Inc.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among MedAvant Healthcare Solutions, The NASDAQ Composite Index

And A Peer Group

We have never paid any dividends on our Common Stock; however, in prior years, we have paid dividends on our Series B and Series C Preferred Stock in cash and/or in shares of our Common Stock pursuant to the terms of the Articles of Incorporation, as amended. We intend to retain any earnings for use in our operations and the expansion of our business and do not anticipate paying any dividends on the common or preferred stock in the foreseeable future. The payment of dividends on our common stock is restricted by our debt agreements. Any future decision with respect to dividends on common stock will depend on future earnings, future capital needs and our operating and financial condition, among other factors.

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**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information as of December 31, 2006, related to our equity compensation plans (including the potential effect of debt instruments convertible into Common Stock) in effect as of that date.

| | Number of Securities to be Issued upon Exercise of Outstanding | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities |
|---|---|---|---|

| Plan Category | Options, Warrants and Rights (1) (a) | | (b) | Reflected in Column (a)) (c) |
|---|---|---|---|---|
| Equity Compensation Plans approved by security holders | 1,769,917 | $ | 8.67 | 814,566 |
| Equity Compensation Plans not approved by security holder | 26,687 | | 82.15 | |
| Total | 1,769,604 | $ | 9.76 | 814,566 |

(1) The description of the material terms of the non-plan issuances of equity instruments is discussed in Note 11 of the accompanying consolidated financial statements.

**Recent Sales of Unregistered Securities**

NONE.



## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information for MedAvant as of and for each of the five years in the period ended December 31, 2006, and has been derived from our audited consolidated financial statements.

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2006 (1) | 2005 | 2004 (2) | 2003 (3) | 2002 |