Performant Financial Corp
Form 424B4
August 10, 2012

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-182529

9,000,000 Shares

COMMON STOCK

Performant Financial Corporation is offering 1,924,000 shares of its common stock and the selling stockholders are offering 7,076,000 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares.

Our common stock has been approved for listing on the NASDAQ Global Select Market under the symbol PFMT.

Performant Financial Corporation is an emerging growth company as defined under the federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements in future reports after the completion of this offering.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

PRICE $9.00 A SHARE

	Price to Public	***Underwriting Discounts and Commissions(1)***	***Proceeds to Performant***	***Proceeds to Selling Stockholders***
Per Share	*$9.00*	*$0.63*	*$8.37*	*$8.37*
Total	*$81,000,000*	*$5,670,000*	*$16,103,880*	*$59,226,120*

(1) See Underwriting for additional information regarding compensation.

The selling stockholders have granted the underwriters the right to purchase up to an additional 1,350,000 shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on August 15, 2012.

MORGAN STANLEY *GOLDMAN, SACHS & CO.*

CREDIT SUISSE *WELLS FARGO SECURITIES*

WILLIAM BLAIR *SUNTRUST ROBINSON HUMPHREY*

August 9, 2012

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You should rely only on the information contained in this prospectus and any free writing prospectus we may specifically authorize to be delivered or made available to you. We have not, and the selling stockholders and the underwriters have not, authorized anyone to provide you with additional or different information. The information contained in this prospectus or any free writing prospectus is accurate only as of its date, regardless of its time of delivery or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus is an offer to sell only the shares offered hereby but only under circumstances and in jurisdictions where it is lawful to do so.

Until September 3, 2012 (the 25th day after the date of this prospectus), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including our consolidated financial statements and the related notes and the information set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, in each case included elsewhere in this prospectus. Unless expressly indicated or the context otherwise requires, in this prospectus, Performant, we, us, our, and the Company refer to Performant Financial Corporation and, where appropriate, its subsidiar

Overview

We provide technology-enabled recovery and related analytics services in the United States. Our services help identify and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. We generally provide our services on an outsourced basis, where we handle many or all aspects of our clients recovery processes.

We believe we have a leading position in our markets based on our proprietary technology-enabled services platform, long-standing client relationships and the large volume of funds we have recovered for our clients. In 2011, we provided recovery services on approximately $8.7 billion of combined student loans and other delinquent federal and state receivables and recovered approximately $189 million in improper Medicare payments. Our clients include 13 of the 33 public sector participants in the student loan industry and these relationships average more than 11 years in length, including a 22-year relationship with the U.S. Department of Education. In the healthcare market, we are currently one of four prime Medicare Recovery Audit Contractors, or RACs, in the United States for the Centers for Medicare and Medicaid Services, or CMS.

We utilize our technology platform to efficiently provide recovery and analytics services in the markets we serve. We have continuously developed and refined our technology platform for almost two decades by using our extensive domain and data processing expertise. We believe our technology platform allows us to achieve higher workforce productivity versus more traditional labor-intensive outsourcing business models, as we generated in excess of $130,000 of revenues per employee during 2011, based on the average number of employees during the year. In addition, we believe that our platform is easily adaptable to new markets and processes. For example, we utilized the same basic platform previously used primarily for student loan recovery activities to enter the healthcare market.

Our revenue model is generally success-based as we earn fees based on a percentage of the aggregate amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and we offer our clients the opportunity to recover significant funds otherwise lost. Furthermore, our business model does not require significant capital expenditures for us and we do not purchase loans or obligations. We believe we benefit from a significant degree of revenue visibility due to reasonably predictable recovery outcomes in a substantial portion of our business. For the year ended December 31, 2011, we generated approximately $163.0 million in revenues, $12.4 million in net income, $57.8 million in adjusted EBITDA and $25.0 million in adjusted net income. For the six months ended June 30, 2012, we generated approximately $100.7 million in revenues, $10.6 million in net income, $33.9 million in adjusted EBITDA and $15.3 million in adjusted net income, and our total debt was $153.3 million at June 30, 2012. See Adjusted EBITDA and Adjusted Net Income below for a definition of adjusted EBITDA and adjusted net income and reconciliations of adjusted EBITDA and adjusted net income to net income determined in accordance with generally accepted accounting principles.

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Industry Overview

We operate in markets characterized by strong growth, a complex regulatory environment and a significant amount of delinquent, defaulted or improperly paid assets.

Student Lending

According to the Department of Education, total government-supported student loan originations were approximately $109 billion in the year ended September 30, 2011, and the aggregate dollar amount of these loans has grown at a compound annual growth rate of 12% from 2002 through 2011. The cohort default rate, which is the measure utilized by the Department of Education to track the percentage of government-supported loan borrowers that enter repayment in a certain year ended September 30 and default by the end of the next year ended September 30, has risen from approximately 5% in 2006 to approximately 9% in 2009, the last year for which data is available.

Healthcare

According to CMS, U.S. healthcare spending exceeded $2.6 trillion in 2010 and is forecast to grow at a 6% annual rate through 2020. CMS indicates that government-related healthcare spending for 2010 totaled approximately $1.2 trillion. This government-related spending included approximately $525 billion of payments under Medicare, of which $48 billion, or 9%, was estimated to be improper according to the Department of Health and Human Services. Medicare improper payments generally involve incorrect coding, procedures performed which were not medically necessary, incomplete documentation or claims submitted based on outdated fee schedules, among other issues.

Other Markets

We believe that the demand for recovery of delinquent state taxes will grow as state governments struggle with revenue generation and face significant budget deficits. According to the Center on Budget and Policy Priorities, an independent think tank, 47 U.S. states faced budget shortfalls totaling $130 billion in the year ended September 30, 2011, with at least 43 states anticipating deficits for fiscal year 2012. The federal agency market consists of government debt subrogated to the Department of the Treasury. For the year ended September 30, 2011, federal agency recoveries in this market totaled more than $6.2 billion, a significant portion of which were made by private firms on behalf of the Department of Financial Management Service, a bureau of the Department of the Treasury.

Our Platform

Our technology-enabled services platform is based on over two decades of experience in recovering large amounts of funds on behalf of our clients across several markets. The components of our platform include our data management expertise, analytics capabilities and technology-based workflow processes. Our platform integrates these components to allow us to achieve optimized outcomes for our clients in the form of increased efficiency and productivity and high recovery rates. We believe our platform and workflow processes are also intuitive and easy to use for our recovery and claims specialists and allow us to increase our employee retention and productivity.

Our Competitive Strengths

We believe that our business is difficult to replicate, as it incorporates a combination of several important and differentiated elements, including:

Scalable and flexible technology-enabled services platform. We have built a proprietary technology platform that is highly flexible, intuitive and easy to use for our recovery and claims

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specialists. Our platform is easily configurable and deployable across multiple markets and processes.

Advanced, technology-enabled workflow processes. Our technology-enabled workflow processes, developed over many years of operational experience in recovery services, disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent steps that are easily configurable and applicable to different types of recovery-related applications.

Enhanced data and analytics capabilities. Our data and analytics capabilities allow us to achieve strong recovery rates for our clients. We have collected recovery-related data for over two decades, which we combine with large volumes of client and third-party data to effectively analyze our clients delinquent or defaulted assets and improper payments. We have also developed a number of analytics tools that we use to score our clients recovery inventory, determine the optimal recovery process and allocation of resources, and achieve higher levels of recovery results for our clients.

Long-standing client relationships. We believe our long-standing focus on achieving superior recovery performance for our clients and the significant value our clients derive from this focus have helped us achieve long-tenured client relationships, strong contract retention and better access to new clients and future growth opportunities.

Extensive domain expertise in complex and regulated markets. We have extensive experience and domain expertise in providing recovery services for government and private institutions that generally operate in complex and regulated markets. We have demonstrated our ability to develop domain expertise in new markets such as healthcare and state tax and federal Treasury receivables.

Proven and experienced management team. Our management team has significant industry experience and has successfully grown our revenue base and service offerings beyond the original student loan market into healthcare and delinquent state tax and private financial institutions receivables.

Our Growth Strategy

Key elements of our growth strategy include the following:

Expand our student loan recovery volume. We have long-standing relationships with some of the largest participants in the government-supported student loan market, and we believe there are significant opportunities within this growing market to increase the volume of student loans placed with us by existing and new clients.

Expand our recovery services in the healthcare market. As healthcare spending grows, we expect the need for recovery services to increase in the public and private healthcare markets. We intend to expand our recovery services for existing clients, such as CMS, and offer analytics services to potential clients in the private healthcare market.

Pursue strategic alliances and acquisitions. We intend to selectively consider opportunities to grow through strategic alliances or acquisitions that are complementary to our business.

Risks Associated With Our Business

Our business is subject to numerous risks and uncertainties including those highlighted in the section titled Risk Factors immediately following the prospectus summary. Some of these risks include, among others, that:

Revenues generated from our five largest clients represented 74% of our revenues for the year ended December 31, 2011, and any termination of or deterioration in our relationship with any of these clients would result in a decline in our revenues;

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Many of our contracts with our clients for the recovery of student loans and other receivables are not exclusive and do not commit our clients to provide specified volumes of business and, as a consequence, there is no assurance that we will be able to maintain our revenues and operating results;

We face significant competition in all of the markets in which we operate and an inability to compete effectively in the future could harm our relationships with our clients, which would impact our ability to maintain our revenues and operating results;

The U.S. federal government accounts for a significant portion of our revenues, and any loss of business from, or change in our relationship with, the U.S. federal government would result in a significant decrease in our revenues and operating results;

Future legislative changes affecting the markets in which we operate could impair our business and operations;

Our business relationship with the Department of Education has accounted for a significant portion of our revenues and will take on increasing importance as a result of Student Aid and Fiscal Responsibility Act of 2010, or SAFRA. Our failure to maintain this relationship would significantly decrease our revenues;

We could lose clients as a result of consolidation among the Guaranty Agencies, or GAs, which would decrease our revenues;

Our ability to derive revenues under our RAC contract will depend in part on the number and types of potentially improper claims that we are allowed to pursue by CMS, and our results of operations may be harmed if CMS limits the scope of claims we are allowed to pursue;

A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt the operation of our business;

If our security measures are breached or fail and unauthorized access is obtained to our clients confidential data, our services may be perceived as insecure, the attractiveness of our recovery services to current or potential clients may be reduced, and we may incur significant liabilities;

We are subject to extensive regulations regarding our recovery practices and the use and disclosure of confidential personal and healthcare information and failure to comply with these regulations could cause us to incur liabilities and expenses; and

Our recovery business is subject to extensive regulation and consumer protection laws and our failure to comply with those regulations and laws may subject us to liability and result in significant costs.

Corporate Information

We commenced our operations in 1976 under the corporate name Diversified Collection Services, Inc., or DCS. We were incorporated in Delaware on October 8, 2003 under the name DCS Holdings, Inc. and subsequently changed our name to Performant Financial Corporation in 2005. Our principal executive offices are located at 333 North Canyons Parkway, Livermore, California 94551 and our telephone number is (925) 960-4800. Our website address is *www.performantcorp.com*. **The information on or accessible through our website is not part of this prospectus.**

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Our Principal Stockholder

Our principal stockholder, an affiliate of Parthenon Capital Partners, acquired its interest in us in 2004 and currently beneficially owns approximately 82% of our outstanding common stock. Parthenon Capital Partners is a private equity investment firm with approximately $2 billion of capital under management. Parthenon Capital Partners was founded in March of 1998 and focuses on investing in select middle-market companies. The firm invests in a variety of industry sectors with particular expertise in business and financial services, healthcare, distribution/logistics, and technology-enabled services.

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THE OFFERING

Common stock offered by us	1,924,000 shares
Common stock offered by the selling stockholders	7,076,000 shares
Common stock to be outstanding after this offering	45,148,986 shares
Option to purchase additional shares offered by the selling stockholders	1,350,000 shares
Use of proceeds	We intend to use the net proceeds received by us to pay fees under an agreement with an affiliate of our majority stockholder, with the remainder of our net proceeds for working capital and general corporate purposes and for other potential investments, including potential strategic alliances or acquisitions. See Use of Proceeds.
NASDAQ Global Select Market symbol	PFMT

The number of shares of common stock that will be outstanding after this offering is based on the number of shares outstanding as of June 30, 2012, and excludes:

- 5,714,750 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2012, at a weighted-average exercise price of approximately $0.88 per share;
- 4,300,000 shares of common stock reserved for future issuance under our 2012 Stock Incentive Plan;
- 90,000 additional shares of common stock that will be issued to Financial Technology Partners LP or FTP Securities LLC, whom we collectively refer to as FT Partners, contemporaneously with the closing of this offering. See Underwriting for a more complete description of our agreement with FT Partners; and
- the repurchase of 98,020 shares of common stock by us from certain members of management on July 3, 2012.

Unless expressly indicated or the context otherwise requires, all information in this prospectus assumes:

- no exercise by the underwriters of their right to purchase up to an additional 1,350,000 shares of common stock from the selling stockholders to cover over-allotments;
- the filing of our amended and restated certificate of incorporation and the effectiveness of our amended and restated bylaws in connection with this offering;

no exercise of options outstanding as of June 30, 2012; and

a 2-for-1 forward stock split of our outstanding common stock effected on July 26, 2012.

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SUMMARY CONSOLIDATED FINANCIAL DATA

We have derived the summary consolidated statement of operations data for 2009, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the summary consolidated statement of operations data for the six months ended June 30, 2011 and 2012 and the consolidated balance sheet data as of June 30, 2012 from our unaudited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future. The following summary consolidated financial data should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,			Six Months Ended June 30,	
	2009 (Restated)(1)	2010 (Restated)(1)	2011 (Restated)(1)	2011	2012
	(in thousands, except share and per share amounts)				
Consolidated Statement of Operations Data:					
Revenues	$ 109,832	$ 123,519	$ 162,974	$ 78,324	$ 100,699
Operating expenses:					
Salaries and benefits	53,728	58,113	67,082	33,981	38,423
Other operating expense	32,110	33,655	49,199	21,580	34,813
Impairment of trade name			13,400		
Total operating expenses	85,838	91,768	129,681	55,561	73,236
Income from operations	23,994	31,751	33,293	22,763	27,463
Debt extinguishment costs(2)					(3,679)
Interest expense	(16,017)	(15,230)	(13,530)	(6,847)	(6,154)
Interest income	104	118	125	63	62
Income before provision for income taxes	8,081	16,639	19,888	15,979	17,692
Provision for income taxes	3,071	6,664	7,516	6,400	7,097
Net income	$ 5,010	$ 9,975	$ 12,372	$ 9,579	$ 10,595
Accrual for preferred stock dividends	5,128	5,771	6,495	3,125	2,038
Net income (loss) available to common shareholders	(118)	4,204	5,877	6,454	8,557
Net income (loss) per share attributable to common shareholders(3)					
Basic	$ (0.00)	$ 0.10	$ 0.14	$ 0.15	$ 0.20
Diluted	$ (0.00)	$ 0.09	$ 0.13	$ 0.14	$ 0.18
Weighted average shares					
Basic	42,962	42,962	42,962	42,962	43,109
Diluted	42,962	45,019	45,742	44,630	46,510
Pro forma net income per share (unaudited)(4)					
Basic			$ 0.12		$ 0.17
Diluted			$ 0.11		$ 0.16