

EMDEON CORP  
Form 10-Q  
November 09, 2005

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

**Form 10-Q**

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

**For the quarterly period ended September 30, 2005**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-24975**

**EMDEON CORPORATION**

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

**Delaware**

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

**94-3236644**

*(I.R.S. Employer  
Identification Number)*

**669 River Drive, Center 2**

**Elmwood Park, New Jersey 07407-1361**

*(Address of principal executive offices, including zip code)*

**(201) 703-3400**

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

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 (the Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 8, 2005, there were 344,892,743 shares of the  
registrant's Common Stock outstanding.

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**EMDEON CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
For the period ended September 30, 2005  
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WebMD®, WebMD Health®, dakota imaging™, Digital Office Manager®, DIM<sub>DX</sub>®, Emdeon™, Emdeon Business Services™, Emdeon Practice Services™, Envoy®, ExpressBill®, Image Director<sup>sm</sup>, Intergy®, MedicineNet®, Medifax®, Medifax-EDI®, Medpulse®, Medscape®, MEDPOR®, Physician Flow<sup>sm</sup>, POREX®, Publishers Circle®, RxList®, The Little Blue Book™, The Medical Manager® and ViPS™ are among the trademarks of Emdeon Corporation or its subsidiaries.

#### ***Note Regarding Our Name Change***

*As previously announced, we changed our corporate name to Emdeon Corporation from WebMD Corporation in October 2005. We had previously begun to use Emdeon in the names of two of our segments, Emdeon Business Services (formerly WebMD Business Services) and Emdeon Practice Service (formerly WebMD Practice Services), and as a brand for some of their products and services.*

*Earlier this year, we formed a corporation now called WebMD Health Corp. (and referred to in this Quarterly Report as WHC) to conduct the business of our WebMD Health segment and to issue shares in an initial public offering. WHC's Class A Common Stock began trading on the Nasdaq National Market under the ticker symbol*

*WBMD on September 29, 2005. As of the date of this Quarterly Report, we own 48,100,000 shares of WHC Class B Common Stock, which represents approximately 85.8% of WHC's outstanding common stock and we have 96.7% of the combined voting power of WHC's outstanding common stock.*

*Because the WebMD name had been more closely associated with our WebMD Health segment's business and its Web sites than with our other businesses, our Board of Directors determined that WHC would, following the IPO, have the sole right to use the name WebMD and related trademarks. In this Quarterly Report, we continue to use the name WebMD Health to refer to that reporting segment of our company.*



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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be, forward-looking statements. For example, statements concerning projections, predictions, expectations, estimates or forecasts and statements that describe our objectives, plans or goals are, or may be, forward-looking statements. These forward-looking statements reflect management's current expectations concerning future results and events and can generally be identified by the use of expressions such as may, will, should, could, would, likely, predict, potential, continue, future, estimate, believe, plan, foresee, and other similar words or phrases, as well as statements in the future tense.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important risks and uncertainties could affect future results, causing those results to differ materially from those expressed in our forward-looking statements:

the failure to achieve sufficient levels of customer utilization and market acceptance of new or updated products and services;

the inability to successfully deploy new or updated applications or services;

difficulties in forming and maintaining relationships with customers and strategic partners;

the anticipated benefits from acquisitions not being fully realized or not being realized within the expected time frames;

the inability to attract and retain qualified personnel;

general economic, business or regulatory conditions affecting the healthcare, information technology, Internet and plastic industries being less favorable than expected; and

the other risks and uncertainties described in this Quarterly Report on Form 10-Q under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could have material adverse effects on our future results.

The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report. We expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**EMDEON CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except share and per share data)**

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 82,047	\$ 46,019
Stock subscription receivable	129,142	
Short-term investments	603,360	61,675
Accounts receivable, net of allowance for doubtful accounts of \$13,023 at September 30, 2005 and \$13,433 at December 31, 2004	230,174	204,447
Inventory	13,183	13,978
Prepaid expenses and other current assets	42,168	40,613
Total current assets	1,100,074	366,732
Marketable debt securities	147,060	511,864
Marketable equity securities	4,873	4,017
Property and equipment, net	112,786	89,677
Goodwill	1,026,998	1,010,564
Intangible assets, net	242,702	260,509
Other assets	52,257	48,871
<b>TOTAL ASSETS</b>	<b>\$ 2,686,750</b>	<b>\$ 2,292,234</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,669	\$ 17,366
Accrued expenses	168,363	201,528
Deferred revenue	111,672	99,543
Total current liabilities	290,704	318,437
1.75% convertible subordinated notes due 2023	350,000	350,000
3 <sup>1</sup> / <sub>8</sub> % convertible notes due 2025	300,000	
3 <sup>1</sup> / <sub>4</sub> % convertible subordinated notes due 2007		299,999
Other long-term liabilities	5,226	1,283
Minority interest in WebMD Health Corp.	41,506	
Convertible redeemable exchangeable preferred stock, \$0.0001 par value; 10,000 shares authorized, issued and outstanding at September 30, 2005 and December 31, 2004	98,474	98,299

## Commitments and contingencies

## Stockholders' equity:

Preferred stock, \$0.0001 par value; 4,990,000 shares authorized; no shares issued		
Common stock, \$0.0001 par value; 900,000,000 shares authorized; 427,758,330 shares issued at September 30, 2005; 394,041,320 shares issued at December 31, 2004	43	39
Additional paid-in capital	12,117,400	11,776,911
Deferred stock compensation	(5,057)	(7,819)
Treasury stock, at cost; 81,302,495 shares at September 30, 2005; 80,849,495 shares at December 31, 2004	(384,564)	(379,968)
Accumulated deficit	(10,132,957)	(10,172,904)
Accumulated other comprehensive income	5,975	7,957
Total stockholders' equity	1,600,840	1,224,216
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,686,750</b>	<b>\$ 2,292,234</b>

See accompanying notes.

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**EMDEON CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenue	\$ 323,153	\$ 299,615	\$ 949,643	\$ 852,710
Costs and expenses:				
Cost of operations	182,910	168,571	537,023	495,174
Development and engineering	14,681	14,392	43,778	38,479
Sales, marketing, general and administrative	82,386	84,762	248,056	245,054
Depreciation and amortization	18,895	15,189	52,940	40,922
Legal expense	5,904	2,325	14,347	6,577
Restructuring and integration charge		4,535		4,535
Interest income	5,125	4,512	13,382	14,506
Interest expense	2,996	4,843	11,672	14,429
Other expense (income), net	1,863	(94)	7,407	(578)
Income before income tax provision	18,643	9,604	47,802	22,624
Income tax provision	4,536	1,435	7,680	2,979
Net income	\$ 14,107	\$ 8,169	\$ 40,122	\$ 19,645
Net income per common share:				
Basic	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.06
Diluted	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.06
Weighted-average shares outstanding used in computing net income per common share:				
Basic	356,091	323,004	339,576	318,978
Diluted	370,313	333,978	351,875	333,048

See accompanying notes.



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**EMDEON CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 40,122	\$ 19,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,940	40,922
Amortization of debt issuance costs	1,856	2,255
Non-cash advertising and distribution services	6,999	14,893
Non-cash stock-based compensation	3,487	7,241
Bad debt expense	4,876	4,090
Loss on redemption of convertible debt	1,902	
Loss (gain) on investments	3,642	(457)
Non-cash reversal of income tax valuation allowance	4,330	
Gain on sale of property and equipment		(121)
Changes in operating assets and liabilities:		
Accounts receivable	(28,861)	(7,233)
Inventory	795	(303)
Prepaid expenses and other, net	(2,328)	2,905
Accounts payable	(6,387)	(874)
Accrued expenses	7,913	(8,189)
Deferred revenue	7,815	4,426
Net cash provided by operating activities	99,101	79,200
<b>Cash flows from investing activities:</b>		
Proceeds from maturities and sales of available-for-sale securities	336,014	1,387,614
Purchases of available-for-sale securities	(516,109)	(1,267,726)
Purchases of property and equipment	(49,325)	(24,889)
Proceeds received from sale of property and equipment	400	417
Cash paid in business combinations, net of cash acquired	(74,410)	(225,375)
Net cash used in investing activities	(303,430)	(129,959)
<b>Cash flows from financing activities:</b>		
Redemption of convertible debt	(86,694)	
Proceeds from issuance of common stock	43,384	30,528
Payments of notes payable and other	(495)	(433)
Net proceeds from issuance of preferred stock		98,115
Net proceeds from issuance of convertible debt	289,875	
Purchases of treasury stock	(4,596)	(22,267)
Net cash provided by financing activities	241,474	105,943
Effect of exchange rates on cash	(1,117)	(28)

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Net increase in cash and cash equivalents	36,028	55,156
Cash and cash equivalents at beginning of period	46,019	39,648
Cash and cash equivalents at end of period	\$ 82,047	\$ 94,804

See accompanying notes.

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**EMDEON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per share data, unaudited)**

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

In October 2005, WebMD Corporation changed its name to Emdeon Corporation in connection with the initial public offering of equity securities of the Company's WebMD Health subsidiary, WebMD Health Corp. ( WHC ). On September 28, 2005, WHC sold, in an initial public offering, shares of its Class A Common Stock representing approximately 14.2% of the aggregate number of its shares of Common Stock outstanding immediately following the offering. The accompanying consolidated financial statements include the consolidated accounts of Emdeon Corporation and its subsidiaries (the Company ). The consolidated accounts include 100% of the assets and liabilities of the majority owned WHC and the ownership interests of minority shareholders of WHC are recorded as Minority Interest in WebMD Health Corp. in the accompanying consolidated balance sheets. The Company's common stock continues to be traded on the Nasdaq National Market under the symbol HLTH .

The unaudited consolidated financial statements of the Company have been prepared by management and reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for any subsequent period or for the entire year ending December 31, 2005. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted under the Securities and Exchange Commission's rules and regulations.

The unaudited consolidated financial statements and notes included herein should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2004, which were included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Accounting Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company is subject to uncertainties such as the impact of future events, economic, environmental and political factors and changes in the Company's business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the preparation of the Company's financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements. Significant estimates and assumptions by management affect: the allowance for doubtful accounts, the carrying value of inventory, the carrying value of prepaid advertising and distribution services, the carrying value of long-lived assets (including goodwill and intangible assets), the amortization period of long-lived assets (excluding goodwill), the carrying value, capitalization and amortization of software development costs, the carrying value of short-term and long-term investments, the provision for income taxes and related deferred tax accounts, certain accrued expenses, revenue recognition, contingencies, litigation and the value attributed to warrants issued for services.

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**EMDEON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Inventory**

Inventory is stated at the lower of cost or market value using the first-in, first-out basis. Cost includes raw materials, direct labor and manufacturing overhead. Market value is based on current replacement cost for raw materials and supplies and on net realizable value for work-in-process and finished goods. Inventory consisted of the following:

	September 30, 2005	December 31, 2004
Raw materials and supplies	\$ 3,670	\$ 3,925
Work-in-process	1,568	1,335
Finished goods and other	7,945	8,718
	\$ 13,183	\$ 13,978

**Accounting for Stock-Based Compensation**

The Company accounts for its stock-based employee compensation plans using the intrinsic value method under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ), and related interpretations. No stock-based employee compensation cost is reflected in net income with respect to options granted with an exercise price equal to the market value of the underlying common stock on the date of grant. Stock-based awards to non-employees are accounted for based on provisions of SFAS No. 123,

Accounting for Stock-Based Compensation ( SFAS No. 123 ), and EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. The following table illustrates the effect on net income and net income per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income as reported	\$ 14,107	\$ 8,169	\$ 40,122	\$ 19,645
Add: Stock-based employee compensation expense included in reported net income	1,120	2,800	3,487	7,241
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(9,868)	(17,536)	(29,236)	(54,477)
Pro forma net income (loss)	\$ 5,359	\$ (6,567)	\$ 14,373	\$ (27,591)
Net income (loss) per common share:				
Basic as reported	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.06
Diluted as reported	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.06
Basic pro forma	\$ 0.02	\$ (0.02)	\$ 0.04	\$ (0.09)

Diluted pro forma	\$ 0.01	\$ (0.02)	\$ 0.04	\$ (0.09)
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The pro forma results above are not intended to be indicative of or a projection of future results. Pro forma information regarding net income has been determined as if employee stock options granted subsequent to December 31, 1994 were accounted for under the fair value method of SFAS No. 123. The fair value for 2005 options was estimated at the date of grant using the Black-Scholes option pricing model employing weighted average assumptions that were substantially consistent with the 2004 assumptions

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except with respect to the volatility assumption which was 0.5 for options granted during the nine months ended September 30, 2005. The 2004 assumptions were included in Note 14 to the consolidated financial statements contained in the Company's 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Net Income Per Common Share**

Basic income per common share and diluted income per common share are presented in conformity with SFAS No. 128, Earnings Per Share (SFAS No. 128). In accordance with SFAS No. 128, basic income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to the assumed conversion of the convertible redeemable exchangeable preferred stock. Diluted income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to potentially dilutive securities. Additionally, for purposes of calculating diluted income per common share of the Company, the numerator has been adjusted to consider the effect of potentially dilutive securities of WHC, which can dilute the portion of WHC's net income otherwise retained by the Company. See Note 3. The impact of WHC's potentially dilutive securities on the calculation of diluted income per common share was not material during any of the periods presented. The following table presents the calculation of basic and diluted income per common share (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Numerator:</b>				
Net income	\$ 14,107	\$ 8,169	\$ 40,122	\$ 19,645
<b>Denominator:</b>				
Common stock	345,453	312,366	328,938	311,379
Convertible redeemable exchangeable preferred stock	10,638	10,638	10,638	7,599
Weighted-average shares - Basic	356,091	323,004	339,576	318,978
Employee stock options, restricted stock and warrants	14,222	10,974	12,299	14,070
Adjusted weighted-average shares after assumed conversions - Diluted	370,313	333,978	351,875	333,048
<b>Net income per common share:</b>				
Basic	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.06
Diluted	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.06

The Company has excluded convertible subordinated notes and convertible notes, as well as certain outstanding warrants and stock options, from the calculation of diluted income per common share because such securities were anti-dilutive during the periods presented. The following table presents the total number of shares that could potentially dilute basic income per common share in the future that were



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not included in the computation of diluted income per common share during the periods presented (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Options and warrants	56,889	90,397	59,569	87,357
Convertible notes	42,015	55,129	42,015	55,129
	98,904	145,526	101,584	142,486

**Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123, (Revised 2004): Share-Based Payment ( SFAS 123R ), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the fiscal year that begins after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on the consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R.

**Reclassifications**

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation, including the classification of auction rate securities as available-for-sale securities, which are reported as short-term investments, instead of cash and cash equivalents. The Company reclassified \$13,400 of investments in auction rate securities that were previously included in cash and cash equivalents to short-term investments as of September 30, 2004. The Company has included purchases and sales of auction rate securities in the accompanying consolidated statements of cash flows as a component of its investing activities. This reclassification had no impact on the Company's results of operations or cash flow from operations.

**2. Business Combinations****2005 Acquisition**

On March 14, 2005, the Company acquired HealthShare Technology, Inc. ( HealthShare ), a privately held company that provides online tools that compare cost and quality measures of hospitals for use by consumers, providers and health plans. The total purchase consideration of HealthShare was approximately \$29,883, comprised of \$29,533 in cash, net of cash acquired, and \$350 of estimated acquisition costs. In addition, the Company has agreed to pay up to an additional \$5,000 during the three months ended March 31, 2006 if HealthShare reaches certain revenue thresholds for the year ended December 31, 2005. The acquisition was accounted for using the purchase method of



accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the

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liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price and intangible asset valuation, goodwill of \$24,875 and intangible assets subject to amortization of \$8,500 were recorded. The Company does not expect that the goodwill or intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$7,500 relating to customer relationships with estimated useful lives of five years and \$1,000 relating to acquired technology with an estimated useful life of three years. The results of operations of HealthShare have been included in the financial statements of the Company from March 14, 2005, the closing date of the acquisition, and are included in the WebMD Health segment.

**2004 Acquisitions**

On December 24, 2004, the Company acquired MedicineNet, Inc. ( MedicineNet ), a privately held health information Web site for consumers. The total purchase consideration of MedicineNet was approximately \$17,209 comprised of \$16,732 in cash, net of cash acquired, and \$477 of estimated acquisition costs. In addition, the Company has agreed to pay up to an additional \$15,000 during the three months ended March 31, 2006 if the number of page views on MedicineNet's Web sites exceeds certain thresholds for the year ended December 31, 2005. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price and intangible asset valuation, goodwill of \$9,104 and intangible assets subject to amortization of \$7,200 were recorded. The Company does not expect that the goodwill or intangible asset recorded will be deductible for tax purposes. The intangible assets are comprised of \$5,600 relating to content with an estimated useful life of three years, \$900 relating to customer relationships with estimated useful lives of two years and \$700 relating to acquired technology with an estimated useful life of three years. The results of operations of MedicineNet have been included in the WebMD Health segment.

During October 2004, the Company acquired Esters Filtertechnik GmbH ( Esters ), a privately held distributor of porous plastic products and components. The total purchase consideration of Esters was approximately \$3,333 comprised of \$3,160 in cash, net of cash acquired, and \$173 of estimated acquisition costs. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the preliminary allocation of the purchase price, goodwill of \$1,798 and an intangible asset subject to amortization of \$1,200 were recorded. The Company does not expect that the goodwill or intangible asset recorded will be deductible for tax purposes. The intangible asset is customer relationships with an estimated useful life of eleven years. The results of operations of Esters have been included in the financial statements of the Company from the closing date of the acquisition and are included in the Porex segment.

On October 1, 2004, the Company acquired RxList, LLC ( RxList ), a privately held provider of an online drug directory for consumers and healthcare professionals. The total purchase consideration was approximately \$5,455 comprised of \$4,500 in cash, \$500 to be paid in 2006 and \$455 of estimated acquisition costs. In addition, the Company has agreed to pay up to an additional \$2,500 during each of the three month periods ended March 31, 2006 and 2007, if the number of page views on RxList's Web sites exceeds certain thresholds for each of the three month periods ended December 31, 2005 and 2006, respectively. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price and intangible asset valuation, goodwill of \$4,420 and an intangible asset subject to amortization of \$1,054 were recorded. The Company expects that substantially all of the goodwill and intangible asset recorded will be deductible for tax purposes. The intangible asset is content with an estimated useful life of five years. The

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results of operations of RxList have been included in the financial statements of the Company from October 1, 2004, the closing date of the acquisition, and are included in the WebMD Health segment.

On August 11, 2004, the Company completed its acquisition of ViPS, Inc. ( ViPS ), a privately held provider of information technology, decision support solutions and consulting services to government, Blue Cross Blue Shield and commercial healthcare payers. ViPS develops and provides a broad range of solutions for claims processing, provider performance measurement, quality improvement, fraud detection, disease management and predictive modeling. The total purchase consideration for ViPS was approximately \$166,588 comprised of \$165,208 in cash, net of cash acquired, and \$1,380 of acquisition costs. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of \$71,253 and intangible assets subject to amortization of \$84,000 were recorded. The Company does not expect that the goodwill or intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$38,800 relating to customer relationships with estimated useful lives ranging from ten to fifteen years, \$34,800 relating to acquired technology with an estimated useful life of five years and \$10,400 relating to a trade name with an estimated useful life of ten years. The results of operations of ViPS have been included in the financial statements of the Company from August 11, 2004, the closing date of the acquisition, and are included in the Emdeon Business Services (formerly known as WebMD Business Services) segment.

On July 15, 2004, the Company acquired the assets of Epur, Inc. ( Epur ), a privately held company based in Los Angeles, California. Epur manufactures porous plastic implant products for use in aesthetic and reconstructive surgery of the head and face. The total purchase consideration for Epur was approximately \$2,547 comprised of \$2,000 in cash, \$490 to be paid over five years, of which \$90 has been paid as of September 30, 2005, and \$57 of acquisition costs. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of \$2,324 and an intangible asset subject to amortization of \$200 were recorded. The Company expects that substantially all of the goodwill and intangible asset recorded will be deductible for tax purposes. The intangible asset is a non-compete agreement with an estimated useful life of five years. The results of operations of Epur have been included in the financial statements of the Company from July 15, 2004, the closing date of the acquisition, and are included in the Porex segment.

On April 30, 2004, the Company acquired Dakota Imaging, Inc. ( Dakota ), a privately held provider of automated healthcare claims processing technology and business process outsourcing services. Dakota's technology and services assist its customers in reducing costly manual processing of healthcare documents and increase auto-payment of medical claims through advanced data scrubbing. The Company paid approximately \$38,979 in cash, net of cash acquired, \$527 of acquisition costs and has agreed to pay up to an additional \$25,000 in cash over a three-year period beginning in April 2005 if certain financial milestones are achieved. No payment was made in April 2005 in connection with the first earn out year ending March 2005. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their respective fair values. In connection with the allocation of the purchase price, goodwill of \$28,266 and intangible assets subject to amortization of \$13,100 were recorded. The Company does not expect that the goodwill or intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$4,500 relating to customer relationships with estimated useful lives of ten years and \$8,600 relating to acquired technology with an estimated useful life of five years. The results of operations of Dakota have been included in the financial statements of the Company

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from April 30, 2004, the closing date of the acquisition, and are included in the Emdeon Business Services segment.

In 2004, the Company acquired one practice services company for an aggregate cost of \$70, which was paid in cash, and agreed to pay up to \$30 beginning in 2005 if the acquired company met certain financial milestones. During the nine months ended September 30, 2005, the Company paid \$30 in cash as a result of achieving these milestones. In connection with the allocation of the purchase price, intangible assets subject to amortization of \$85 were recorded, principally related to customer relationships and non-compete agreements. The results of operations of this company have been included in the financial statements of the Company from the acquisition closing date, and are included in the Emdeon Practice Services (formerly known as WebMD Practice Services) segment.

**Unaudited Pro Forma Information**

The following unaudited pro forma financial information for the nine months ended September 30, 2004 gives effect to the acquisition of ViPS including the amortization of intangible assets, as if it had occurred as of January 1, 2004. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representative of these results for any future period. The remaining acquisitions in 2005 and 2004 have been excluded as the pro forma impact of such acquisitions was not significant to the period presented.

	<b>Nine Months Ended September 30, 2004</b>
Revenue	\$ 892,047
Net income	\$ 21,275
Income per common share:	
Basic	\$ 0.07
Diluted	\$ 0.06

**3. WebMD Health Corp. Initial Public Offering**

In May 2005, the Company formed a wholly owned subsidiary in preparation for an initial public offering of equity in the Company's WebMD Health segment. The subsidiary was later named WebMD Health Corp. ( WHC ) and, in September 2005, the Company contributed to WHC the subsidiaries, the assets and the liabilities included in the Company's WebMD Health segment. On September 28, 2005, WHC sold, in an initial public offering, 7,935,000 shares of its Class A Common Stock at \$17.50 per share. This resulted in proceeds, net of underwriting discounts, of approximately \$129,142, which was retained by WHC to be used for working capital and general corporate purposes. WHC received these proceeds on October 4, 2005 and, accordingly, this amount has been classified as Stock Subscription Receivable in the accompanying consolidated balance sheets as of September 30, 2005. Additionally, the Company incurred approximately \$5,600 of legal, accounting, printing and other expenses related to the offering.

As of September 30, 2005, the Company owned 48,100,000 shares of WHC Class B Common Stock, representing ownership of approximately 85.8% of the outstanding WHC Common Stock. WHC Class A Common Stock has one vote per share while WHC Class B Common Stock has five votes per share. Therefore, as of September 30, 2005, the WHC Class B Common Stock owned by the Company represented 96.7% of the combined voting power of WHC's outstanding Common Stock. Each share of



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WHC Class B Common Stock is convertible at the Company's option into one share of WHC Class A Common Stock. In addition, shares of WHC Class B Common Stock will automatically be converted, on a one-for-one basis, into shares of WHC Class A Common Stock on a transfer thereof to a person other than a majority owned subsidiary of the Company or a successor of the Company. On the fifth anniversary of the closing date of the initial public offering, all then outstanding shares of WHC Class B Common Stock will automatically be converted, on a one-for-one basis, into shares of WHC Class A Common Stock.

The Company recorded a gain on the sale of WHC Class A Common Stock of approximately \$82,385, which was reflected as an adjustment to additional paid-in capital in accordance with the requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 51 Accounting for Sales of Stock by a Subsidiary (SAB No. 51). In connection with the SAB No. 51 gain, the Company recorded deferred tax liabilities of approximately \$32,000 and reversed an equal amount of its deferred tax valuation allowance. Both the establishment of the deferred tax liabilities and related reversal of valuation allowance were recorded to additional paid-in-capital and, accordingly, had no impact on the consolidated statement of operations or consolidated balance sheet. As of September 30, 2005, the minority stockholders' proportionate share of the equity in WHC of \$41,506 is reflected as Minority Interest in WebMD Health Corp. in the accompanying consolidated balance sheets. The minority stockholders' proportionate share of net income in WHC from the date of the initial public offering through September 30, 2005 was not material. In connection with the initial public offering, WHC granted to employees, on September 28, 2005, approximately 4,575,000 shares of WHC Class A Common Stock, of which approximately 4,200,000 were in the form of options to purchase shares of WHC Class A Common Stock with an exercise price equal to the initial public offering price per share of \$17.50 and approximately 375,000 were in the form of restricted WHC Class A Common Stock.

The Company entered into a number of agreements with WHC governing the future relationship of the companies, including a Services Agreement, a Tax Sharing Agreement and an Indemnity Agreement. These agreements cover a variety of matters, including responsibility for certain liabilities, including tax liabilities, as well as matters related to providing WHC with administrative services, such as payroll, accounting, tax, employee benefit plan, employee insurance, intellectual property, legal and information processing services. Under the Services Agreement, the Company will receive an amount that reasonably approximates its cost of providing services to WHC. The Company has agreed to make the services available to WHC for up to five years; however, WHC is not required, under the Services Agreement, to continue to obtain services from the Company and is able to terminate services, in whole or in part, at any time generally by providing, with respect to the specified services or groups of services, 60 days' prior notice and, in some cases, paying a nominal termination fee to cover costs relating to the termination.

**4. Convertible Redeemable Exchangeable Preferred Stock**

On March 19, 2004, the Company issued \$100,000 of Convertible Redeemable Exchangeable Preferred Stock (the Preferred Stock) in a private transaction to CalPERS/PCG Corporate Partners, LLC (CalPERS/PCG Corporate Partners). CalPERS/PCG Corporate Partners is a private equity fund managed by the Pacific Corporate Group and principally backed by California Public Employees' Retirement System, or CalPERS.

The Preferred Stock has a liquidation preference of \$100,000 in the aggregate and is convertible into 10,638,297 shares of the Company's common stock in the aggregate, representing a conversion price of \$9.40 per share of common stock. The Company may not redeem the Preferred Stock prior to March 2007. Thereafter, the Company may redeem any portion of the Preferred Stock at 105% of its liquidation preference; provided that any redemption by the Company prior to March 2008 shall be subject to the condition that the average closing sale price of the Company's common stock is at least \$13.16 per share,

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subject to adjustment. The Company is required to redeem all shares of the Preferred Stock then outstanding in March 2012, at a redemption price equal to the liquidation preference of the Preferred Stock, payable in cash or, at the Company's option, in shares of the Company's common stock. If the Company's common stock is used to redeem the Preferred Stock, the number of shares to be issued will be determined by valuing the common stock at 90% of its closing price during the 15 trading days preceding redemption.

If the average closing sales price of the Company's common stock during the three-month period ended on the fourth anniversary of the issuance date is less than \$7.50 per share, holders of the Preferred Stock will have a right to exchange the Preferred Stock into the Company's 10% Subordinated Notes (10% Notes) due March 2010. The 10% Notes may be redeemed, in whole or in part, at any time thereafter at the Company's option at a price equal to 105% of the principal amount of the 10% Notes being redeemed.

Holders of the Preferred Stock will not receive any dividends unless the holders of common stock do, in which case holders of the Preferred Stock will be entitled to receive ordinary dividends in an amount equal to the ordinary dividends the holders of the Preferred Stock would have received had they converted such Preferred Stock into common stock immediately prior to the record date for such dividend distribution. So long as the Preferred Stock remains outstanding, the Company is required to pay to CalPERS/PCG Corporate Partners, on a quarterly basis, an aggregate annual fee of 0.35% of the face amount of the then outstanding Preferred Stock.

Holders of the Preferred Stock have the right to vote, together with the holders of the Company's common stock on an as converted to common stock basis, on matters that are put to a vote of the common stock holders. The Certificate of Designations for the Preferred Stock also provides that the Company will not, without the prior approval of holders of 75% of the shares of Preferred Stock then outstanding, voting as a separate class, issue any additional shares of the Preferred Stock, or create any other class or series of capital stock that ranks senior to or on a parity with the Preferred Stock.

The Company incurred issuance costs related to the Preferred Stock of approximately \$1,885, which have been recorded against the Preferred Stock in the accompanying consolidated balance sheets. The issuance costs are being amortized to accretion of convertible redeemable exchangeable preferred stock, using the effective interest method over the period from issuance through March 19, 2012. For the three and nine months ended September 30, 2005, \$59 and \$175, respectively, were recorded to accretion of convertible redeemable exchangeable preferred stock, included within stockholders' equity.

**5. Convertible Notes***\$300,000 3<sup>1</sup>/<sub>8</sub>% Convertible Notes due 2025*

On August 24, 2005, the Company issued \$300,000 aggregate principal amount of 3<sup>1</sup>/<sub>8</sub>% Convertible Notes due 2025 (the 3<sup>1</sup>/<sub>8</sub>% Notes) in a private offering. Unless previously redeemed or converted, the 3<sup>1</sup>/<sub>8</sub>% Notes will mature on September 1, 2025. Interest on the 3<sup>1</sup>/<sub>8</sub>% Notes accrues at the rate of 3<sup>1</sup>/<sub>8</sub>% per annum and is payable semiannually on March 1 and September 1, commencing March 1, 2006. The Company will also pay contingent interest of 0.25% per annum to the holders of the 3<sup>1</sup>/<sub>8</sub>% Notes during specified six-month periods, commencing with the six-month period beginning on September 1, 2012, if the average trading price of a 3<sup>1</sup>/<sub>8</sub>% Note for the specified period equals 120% or more of the principal amount of the 3<sup>1</sup>/<sub>8</sub>% Note.

Holders of the 3<sup>1</sup>/<sub>8</sub>% Notes may require the Company to repurchase their 3<sup>1</sup>/<sub>8</sub>% Notes on September 1, 2012, September 1, 2015 and September 1, 2020, at a price equal to 100% of the principal amount of the 3<sup>1</sup>/<sub>8</sub>% Notes being repurchased, plus any accrued and unpaid interest, payable in cash. Additionally, the holders of the 3<sup>1</sup>/<sub>8</sub>% Notes may require the Company to repurchase the 3<sup>1</sup>/<sub>8</sub>% Notes upon

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a change in control of the Company at a price equal to 100% of the principal amount of the 3<sup>1</sup>/<sub>8</sub>% Notes, plus accrued and unpaid interest, payable in cash or, at the Company's option, in shares of the Company's common stock or in a combination of cash and shares of the Company's common stock. On or after September 5, 2010, September 5, 2011 and September 5, 2012, the 3<sup>1</sup>/<sub>8</sub>% Notes are redeemable at the option of the Company for cash at redemption prices of 100.893%, 100.446% and 100.0%, respectively, plus accrued and unpaid interest.

The 3<sup>1</sup>/<sub>8</sub>% Notes are convertible into an aggregate of 19,273,393 shares of the Company's common stock (representing a conversion price of \$15.57 per share).

The Company has agreed, in a Registration Rights Agreement entered into for the benefit of holders of the 3<sup>1</sup>/<sub>8</sub>% Notes and of the shares of the Company's common stock issuable upon conversion of the 3<sup>1</sup>/<sub>8</sub>% Notes: (a) to file with the SEC, within 120 days after the date the 3<sup>1</sup>/<sub>8</sub>% Notes were originally issued, a shelf registration statement covering resales of 3<sup>1</sup>/<sub>8</sub>% Notes and the shares issuable upon their conversion; (b) to use reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act of 1933, as amended (the

Securities Act ) within 180 days after the date the 3<sup>1</sup>/<sub>8</sub>% Notes were originally issued; and (c) to use reasonable best efforts to keep the shelf registration statement effective until the earliest of (i) the sale of all securities registered under the shelf registration statement; (ii) the expiration of the period referred to in Rule 144(k) of the Securities Act with respect to 3<sup>1</sup>/<sub>8</sub>% Notes held by persons who are not affiliates of the Company; and (iii) two years after the effective date of the shelf registration statement. The Company is permitted to suspend the use of the prospectus that is part of the shelf registration statement during certain prescribed periods of time for reasons relating to pending corporate developments, public filings with the SEC and other events.

The Company incurred issuance costs related to the 3<sup>1</sup>/<sub>8</sub>% Notes of approximately \$11,500, which are included in other assets in the accompanying consolidated balance sheets. The issuance costs are being amortized to interest expense in the accompanying consolidated statements of operations, using the effective interest method over the period from issuance through September 1, 2012, the earliest date on which holders can demand repurchase.

*\$350,000 1.75% Convertible Subordinated Notes due 2023*

On June 25, 2003, the Company issued \$300,000 aggregate principal amount of 1.75% Convertible Subordinated Notes due 2023 (the 1.75% Notes ) in a private offering. On July 7, 2003, the Company issued an additional \$50,000 aggregate principal amount of the 1.75% Notes. Unless previously redeemed or converted, the 1.75% Notes will mature on June 15, 2023. Interest on the 1.75% Notes accrues at the rate of 1.75% per annum and is payable semiannually on June 15 and December 15, commencing December 15, 2003. The Company will also pay contingent interest of 0.25% per annum of the average trading price of the 1.75% Notes during specified six-month periods, commencing on June 20, 2010, if the average trading price of the 1.75% Notes for specified periods equals 120% or more of the principal amount of the 1.75% Notes.

The 1.75% Notes are convertible into an aggregate of 22,742,040 shares of the Company's common stock (representing a conversion price of \$15.39 per share) if the sale price of the Company's common stock exceeds 120% of the conversion price for specified periods and in certain other circumstances. The 1.75% Notes are redeemable by the Company after June 15, 2008 and prior to June 20, 2010, subject to certain conditions, including the sale price of the Company's common stock exceeding certain levels for specified periods. If the 1.75% Notes are redeemed by the Company during this period, the Company will be required to make additional interest payments. After June 20, 2010, the 1.75% Notes are redeemable at any time for cash at 100% of their principal amount. Holders of the 1.75% Notes may require the Company to repurchase their 1.75% Notes on June 15, 2010, June 15, 2013 and June 15, 2018, for cash at 100% of the principal amount of the 1.75% Notes, plus accrued interest. Upon a change in control, holders



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may require the Company to repurchase their 1.75% Notes for, at the Company's option, cash or shares of the Company's common stock, or a combination thereof, at a price equal to 100% of the principal amount of the 1.75% Notes being repurchased.

The Company incurred issuance costs related to the 1.75% Notes of approximately \$10,354, which are included in other assets in the accompanying consolidated balance sheets. The issuance costs are being amortized to interest expense in the accompanying consolidated statements of operations, using the effective interest method over the period from issuance through June 15, 2010, the earliest date on which holders can demand the repurchase of the 1.75% Notes.

*\$300,000 3<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2007*

On April 1, 2002, the Company issued \$300,000 aggregate principal amount of 3<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2007 (the "3<sup>1</sup>/<sub>4</sub>% Notes") in a private offering. Interest on the 3<sup>1</sup>/<sub>4</sub>% Notes accrued at the rate of 3<sup>1</sup>/<sub>4</sub>% per annum and was payable semiannually on April 1 and October 1. At the time of issuance, the 3<sup>1</sup>/<sub>4</sub>% Notes were convertible into an aggregate of approximately 32,386,916 shares of the Company's common stock (representing a conversion price of \$9.26 per share). During the three months ended June 30, 2003, \$1 principal amount of the 3<sup>1</sup>/<sub>4</sub>% Notes was converted into 107 shares of the Company's common stock in accordance with the provisions of the 3<sup>1</sup>/<sub>4</sub>% Notes.

On June 2, 2005, the Company completed the redemption of all of the outstanding 3<sup>1</sup>/<sub>4</sub>% Notes. During the three months ended June 30, 2005, holders of the 3<sup>1</sup>/<sub>4</sub>% Notes converted a total of \$214,880 principal amount of the 3<sup>1</sup>/<sub>4</sub>% Notes into 23,197,650 shares of common stock of the Company, plus cash in lieu of fractional shares, at a price of \$9.26 per share. The Company redeemed the balance of \$85,119 principal amount of the 3<sup>1</sup>/<sub>4</sub>% Notes at an aggregate redemption price, together with accrued interest and redemption premium, of \$86,694. The write-off of the unamortized portion of the deferred issuance costs and the payment of the redemption premium resulted in a total charge of \$1,902. This charge is included in other expense (income) in the accompanying consolidated statements of operations and in loss on redemption of convertible debt in the accompanying consolidated statements of cash flows.

**6. Stockholders' Equity**

On March 29, 2001, the Company announced a stock repurchase program (the "Program"). Under the Program, the Company was originally authorized to use up to \$50,000 to purchase shares of its common stock from time to time beginning on April 2, 2001, subject to market conditions. The maximum aggregate amount of purchases under the Program was subsequently increased to \$100,000, \$150,000 and \$200,000 on November 2, 2001, November 7, 2002 and August 19, 2004, respectively. As of September 30, 2005, the Company had repurchased a total of 27,038,986 shares at a cost of approximately \$143,064 under the Program, of which 453,000 shares were repurchased during the three and nine months ended September 30, 2005 for an aggregate purchase price of \$4,596. These repurchased shares are reflected as treasury stock in the accompanying consolidated balance sheets. As of September 30, 2004, the Company had repurchased a total of 25,130,962 shares at a cost of approximately \$128,625 under the Program, of which 2,817,606 shares were repurchased during the nine months ended September 30, 2004 for an aggregate purchase price of \$22,267 and 2,271,356 shares were repurchased during the three months ended September 30, 2004 for an aggregate purchase price of \$17,390. As of September 30, 2005, the Company had \$56,936 available to repurchase shares of its common stock under the Program. On November 1, 2005, the Company increased the amount available to repurchase shares of its common stock under the Program by \$145,000.

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**7. Segment Information**

Segment information has been prepared in accordance with Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ( SFAS No. 131 ). The accounting policies of the segments are the same as the accounting policies for the consolidated Company. Inter-segment revenues primarily represent sales of Emdeon Business Services products into the Emdeon Practice Services customer base and are reflected at rates comparable to those charged to third parties for comparable products. To a lesser extent, inter-segment revenues include sales of certain WebMD Health services to the Company's other operating segments. The performance of the Company's business is monitored based on income or loss before restructuring, taxes, non-cash and other items. Non-cash and other items include depreciation, amortization, gain or loss on investments, redemption of the 3<sup>1</sup>/<sub>4</sub>% Notes and sales of property and equipment, costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC ( legal expense ), costs and expenses related to the settlement of the McKesson HBOC litigation (see Note 12), non-cash expenses related to advertising and distribution services acquired in exchange for the Company's equity securities in acquisitions and strategic alliances, and stock compensation expense primarily related to stock options issued and assumed in connection with acquisitions and restricted stock issued to employees.

The Company has aligned its business into four operating segments and one corporate segment as follows:

*Emdeon Business Services (formerly known as WebMD Business Services)* provides revenue cycle management and clinical communications solutions that enable payers, providers and patients to improve healthcare business processes. Emdeon Business Services transmits transactions electronically between healthcare payers and providers and provides healthcare payers with transaction processing technology, consulting services and outsourcing services, including document management services for transaction processing and print-and-mail services for the distribution of checks, remittance advice and explanation of benefits. Emdeon Business Services also provides automated patient billing services to healthcare providers, including statement printing and mailing services. In addition, Emdeon Business Services provides software products, including decision support and data warehousing solutions, and related maintenance services to Blue Cross Blue Shield and commercial healthcare payers and performs software maintenance and consulting services for certain governmental agencies.

*Emdeon Practice Services (formerly known as WebMD Practice Services)* develops and markets information technology systems for healthcare providers and related services, primarily under The Medical Manager, Intergy and Emdeon Network Services brands. These systems and services allow physician offices to automate their scheduling, billing and other administrative tasks, to transmit transactions electronically, to maintain electronic medical records and to automate documentation of patient encounters.

*WebMD Health* provides health information services to consumers, physicians and healthcare professionals through online portals and specialized publications. WebMD Health's public and private online portals provide access to news and articles, searchable in-depth information and dynamic interactive services. WebMD Health's public portals sell advertising and sponsorship programs, including online continuing medical education (CME) services, to companies interested in reaching consumers and physicians online, including pharmaceutical, biotechnology, medical device and consumer products companies. WebMD Health's private portals are licensed to employers and health plans for use by their employees and members. In addition, WebMD Health publishes medical reference textbooks, healthcare provider directories and *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms.

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*Porex* develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications, as well as in finished products used in the medical device and surgical markets.

*Corporate* includes corporate services across all segments, such as, legal, accounting, tax, treasury, human resource, certain information technology functions and other services. Corporate service costs include compensation related costs, insurance and audit fees, leased property, facilities cost, legal and other professional fees, software maintenance and telecommunication costs.

*Reclassification of Segment Information.* On September 28, 2005, WHC sold, in an initial public offering, 7,935,000 shares of Class A Common Stock. Also during the three months ended September 30, 2005, the Company entered into a Services Agreement with WHC and modified its segment reporting. Descriptions of the initial public offering and the Services Agreement are included in Note 3. The Company's segment reporting has been modified to reflect the services fee it charges to its WebMD Health segment as an increase to the expenses of the WebMD Health segment and an offsetting reduction to the expenses in the Corporate segment. In accordance with SFAS No. 131, the Company has reclassified all prior period segment information to conform to the current period presentation. The service fee charged to the WebMD Health segment was \$1,243 and \$4,421 for the three and nine months ended September 30, 2005 and \$1,599 and \$4,636 for the three and nine months ended September 30, 2004, respectively.

Summarized financial information for each of the Company's four operating segments and corporate segment and reconciliation to net income are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Revenues</b>				
Emdeon Business Services	\$ 190,502	\$ 174,643	\$ 567,749	\$ 504,459
Emdeon Practice Services	75,499	76,924	227,113	219,703
WebMD Health	45,094	37,017	119,134	95,178
Porex	20,410	19,385	60,663	58,543
Inter-segment eliminations	(8,352)	(8,354)	(25,016)	(25,173)
	\$ 323,153	\$ 299,615	\$ 949,643	\$ 852,710
<b>Income before restructuring, taxes, non-cash and other items</b>				
Emdeon Business Services	\$ 35,926	\$ 31,750	\$ 114,599	\$ 90,514
Emdeon Practice Services	7,632	5,856	20,212	8,978
WebMD Health(a)	9,077	8,441	15,100	17,572
Porex	6,385	5,823	17,846	17,140
Corporate(a)	(12,738)	(13,571)	(36,485)	(38,067)
Interest income	5,125	4,512	13,382	14,506
Interest expense	(2,996)	(4,843)	(11,672)	(14,429)
	48,411	37,968	132,982	96,214

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**EMDEON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Restructuring, taxes, non-cash and other items</b>				
Depreciation and amortization	(18,895)	(15,189)	(52,940)	(40,922)
Non-cash advertising and distribution services and stock-based compensation	(3,106)	(6,409)	(10,486)	(22,134)
Legal expense	(5,904)	(2,325)	(14,347)	(6,577)
Restructuring and integration charge		(4,535)		(4,535)
Other (expense) income, net	(1,863)	94	(7,407)	578
Income tax provision	(4,536)	(1,435)	(7,680)	(2,979)
Net income	\$ 14,107	\$ 8,169	\$ 40,122	\$ 19,645

(a) Income before restructuring, taxes, non-cash and other items during prior periods, for the Corporate and WebMD Health segments, has been reclassified to conform to the current period presentation.

**8. Investments**

As of September 30, 2005 and December 31, 2004, the Company's short-term investments and marketable debt securities consisted of certificates of deposit, auction rate securities, municipal bonds, asset backed securities, Federal Agency Notes, U.S. Treasury Notes and marketable equity securities in publicly traded companies. All marketable securities are classified as available-for-sale. The following table summarizes the amortized cost basis and estimated fair value of the Company's investments:

	September 30, 2005		December 31, 2004	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Cash and cash equivalents	\$ 82,047	\$ 82,047	\$ 46,019	\$ 46,019
Short-term investments	603,848	603,360	62,077	61,675
Marketable securities - long term	151,480	151,933	516,188	515,881

The amortized cost and estimated fair value by maturity of securities are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. Accordingly, actual maturities may differ from contractual maturities.

	Cost or Amortized Cost	Fair Value
Due in one year or less	\$ 603,848	\$ 603,360

Due after one year through three years	149,988	147,060
<b>Total</b>	<b>\$ 753,836</b>	<b>\$ 750,420</b>

**9. Comprehensive Income**

Comprehensive income is comprised of net income and other comprehensive (loss) gain. Other comprehensive (loss) gain includes certain changes in equity that are excluded from net income, such as changes in unrealized holding gains (losses) on available-for-sale marketable securities and foreign

**Table of Contents****EMDEON CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

currency translation adjustments. The following table presents the components of other comprehensive (loss) gain for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Foreign currency translation gains (losses)	\$ 2	\$ 233	\$ (2,656)	\$ (116)
Unrealized (loss) gain on securities:				
Unrealized holding gains (losses)	(873)	3,321	(2,968)	(7,477)
Less: reclassification adjustment for net gains (losses) realized in net income		94	(3,642)	457
Net unrealized (losses) gains on securities	(873)	3,227	674	(7,934)
Other comprehensive (loss) income	(871)	3,460	(1,982)	(8,050)
Net income	14,107	8,169	40,122	19,645
Comprehensive income	\$ 13,236	\$ 11,629	\$ 38,140	\$ 11,595

The foreign currency translation losses are not currently adjusted for income taxes as they relate to permanent investments in non-U.S. subsidiaries.

Accumulated other comprehensive income includes the following:

	September 30, 2005	December 31, 2004
Unrealized losses on securities	\$ (35)	\$ (709)
Foreign currency translation gains	6,010	8,666
Total accumulated other comprehensive income	\$ 5,975	\$ 7,957

During the three months ended March 31, 2005, the Company recorded a loss on investments of \$4,251 related to marketable debt securities which were identified by the Company as securities to be liquidated in the event funds were needed for redemption of the 3<sup>1</sup>/<sub>4</sub>% Notes. The loss represents the excess of the original book value of those investments over the market value at March 31, 2005. Prior to the recognition of this loss, any excess of book value over the market value of these investments was reflected in accumulated other comprehensive income in the accompanying consolidated balance sheets. In addition, during the nine months ended September 30, 2005, the Company recognized gains on the sale of certain of its investments of \$609. Both of the above amounts are included in other expense (income) in the accompanying consolidated statements of operations.

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**EMDEON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the year ended December 31, 2004 and the nine months ended September 30, 2005 are as follows:

	<b>Emdeon Business Services</b>	<b>Emdeon Practice Services</b>	<b>WebMD Health</b>	<b>Porex</b>	<b>Total</b>
Balance as of January 1, 2004	\$ 585,988	\$ 182,809	\$ 36,843	\$ 38,808	\$ 844,448
Acquisitions during the period	99,829		14,942	4,122	118,893
Contingent consideration payments for prior period acquisitions	60,955	155	1,500		62,610
Tax reversals	(7,141)	(7,321)			(14,462)
Adjustments to finalize purchase price allocations	(1,263)		(116)		(1,379)
Effects of exchange rates				454	454
Balance as of January 1, 2005	738,368	175,643	53,169	43,384	1,010,564
Acquisition during the period			23,141		23,141
Contingent consideration payments for prior period acquisitions(b)	(1,106)	30	1,000		(76)
Tax reversals(a)	(5,478)			(600)	(6,078)
Adjustments to finalize purchase price allocations	(307)		316		9
Effects of exchange rates				(562)	(562)
Balance as of September 30, 2005	\$ 731,477	\$ 175,673	\$ 77,626	\$ 42,222	\$ 1,026,998

- (a) In accordance with EITF 93-7, *Uncertainties Related to Income Taxes in a Purchase Business Combination*, the Company reduced goodwill and accrued liabilities by \$1,148 and \$600 for the Emdeon Business Services and Porex segments, respectively, during the nine months ended September 30, 2005. The reduction related to the favorable resolution of estimated tax liabilities established in connection with certain 2000 acquisitions. Additionally, during the three and nine months ended September 30, 2005, the Company reduced goodwill by \$2,184 and \$4,330, respectively as a result of the reversal of a portion of the income tax valuation allowances that were originally established in connection with the purchase accounting of prior acquisitions within the Emdeon Business Services segment.
- (b) During the nine months ended September 30, 2005, the Company made contingent consideration payments in the amount of \$1,960, \$30 and \$1,000 for the Emdeon Business Services, Emdeon Practice Services and WebMD Health segments 2004 and 2003 Acquisitions, respectively. In addition, during the nine months ended September 30, 2005, the Company adjusted goodwill by \$3,066 in connection with an over accrual of contingent consideration in the Emdeon Business Services segment.





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**EMDEON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intangible assets subject to amortization consist of the following:

	September 30, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer lists	\$ 377,983	\$ (229,541)	\$ 148,442	\$ 369,704	\$ (217,874)	\$ 151,830
Technology and patents	236,422	(166,193)	70,229	234,722	(155,687)	79,035
Trade names	40,716	(30,017)	10,699	40,716	(26,923)	13,793
Non-compete agreements and other	17,913	(4,581)	13,332	17,920	(2,069)	15,851
<b>Total</b>	<b>\$ 673,034</b>	<b>\$ (430,332)</b>	<b>\$ 242,702</b>	<b>\$ 663,062</b>	<b>\$ (402,553)</b>	<b>\$ 260,509</b>

Amortization expense was \$9,051 and \$27,782 for the three and nine months ended September 30, 2005, respectively, and \$7,949 and \$20,089 for the three and nine months ended September 30, 2004, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Year ended December 31, 2005 (October 1st to December 31st)	\$ 8,365
2006	33,071
2007	31,777
2008	28,973
2009	22,112
Thereafter	118,404

**11. Commitments and Contingencies*****Dakota Imaging, Inc. v. Sandeep Goel and Pradeep Goel***

In April 2004, the Company, through its Emdeon Business Services segment, acquired Dakota, a provider of automated healthcare claims processing technology and business process outsourcing services.

As previously reported in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005, on April 6, 2005, the Company's Dakota subsidiary terminated, for cause, the employment of Sandeep Goel, who was its President, and Pradeep Goel, who was its Chief Operating Officer and Chief Technology Officer, each of whom was also a shareholder of Dakota prior to its acquisition by Emdeon Business Services. In addition, Dakota filed a complaint in the Delaware Court of Chancery against Sandeep Goel and Pradeep Goel alleging breach of their respective employment agreements and related causes of action.

On May 9, 2005, the defendants filed an Answer and Counterclaim against Dakota. In the Answer and Counterclaim, defendants allege that Dakota did not have the right to terminate them for cause and that Dakota violated provisions of their employment agreements. Defendants seek damages for the alleged breaches of their employment agreements. Defendants also allege that Dakota, as well as the Company and Envoy Corporation, a subsidiary of the Company, violated the Merger Agreement pursuant to which Envoy acquired Dakota. Defendants allege that the terminations and other actions taken by the Company, Envoy and Dakota interfered with the defendants' rights with respect to potential contingent earn-out consideration under provisions contained in the Merger

Agreement. The Merger Agreement provides for contingent consideration based on achievement of certain financial milestones in specified time periods and

**Table of Contents****EMDEON CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

defendants seek damages in excess of \$25,000, the maximum aggregate amount of contingent consideration that could be earned under the earn-out provisions of the merger agreement.

The Company, Envoy and Dakota have filed motions to dismiss the counterclaims in whole or in part. The Court has not yet ruled on the motions. The Company believes that the counterclaims are without merit and intends to vigorously defend itself against them.

The amount of the contingent payment for the first year of the earn-out under the Merger Agreement is also in dispute between Envoy and Sandeep Goel and Pradeep Goel, as representatives for the former shareholders of Dakota. Envoy believes that no payment is due for that period. In accordance with the provisions of the Merger Agreement, that dispute has been submitted for arbitration before a designated accounting firm.

***M.D. On-Line, Inc. Litigation***

On August 18, 2005, a lawsuit was filed by M.D. On-Line, Inc. in the U.S. District Court for the District of New Jersey against the Company and two of its subsidiaries. The complaint alleges claims of Federal trademark infringement, unfair competition and false designation of origin and state trademark infringement and unfair competition as a result of use of the name Emdeon by the Company and its subsidiaries. The complaint seeks monetary damages in excess of \$150 and an injunction to cause the Company and its subsidiaries to cease using the name Emdeon. A hearing on M.D. On-Line's preliminary injunction application was held on September 22, 2005. After hearing arguments from both parties, the Court denied M.D. On-Line's application. The Court issued a written opinion and Order denying the preliminary injunction application on October 6, 2005. The Company intends to vigorously defend this claim.

***Porex Corporation v. Kleanthis Dean Haldopoulos, Benjamin T. Hirokawa and Micropore Plastics, Inc.***

On September 24, 2005, the Company's subsidiary Porex Corporation filed a complaint in the Superior Court of Fulton County, Georgia against two former employees of Porex, Dean Haldopoulos and Benjamin Hirokawa, and their corporation, Micropore Plastics, Inc., alleging misappropriation of Porex's trade secrets and breaches of Haldopoulos' and Hirokawa's employment agreements, seeking monetary and injunctive relief. The lawsuit was subsequently transferred to the Superior Court of DeKalb County, Georgia. On October 24, 2005, the defendants filed an Answer and Counterclaims against Porex. In the Answer and Counterclaims, the defendants allege that Porex breached non-disclosure and standstill agreements in connection with a proposed transaction between Porex and Micropore and engaged in fraud. The defendants seek punitive damages and expenses of litigation. The Company believes that the counterclaims are without merit and intends to vigorously defend itself against them.

***Other***

In the normal course of business, the Company and its subsidiaries are involved in various other claims and legal proceedings. While the ultimate resolution of these matters, including those discussed in Part II, Item 1 of this Quarterly Report and the Company's 2004 Annual Report on Form 10-K under the heading Legal Proceedings, has yet to be determined, the Company does not believe that their outcome will have a material adverse effect on the Company's consolidated financial position or results of operations.

**12. Subsequent Events*****Merrill Lynch Fundamental Growth Fund, Inc., et al. v. McKesson HBOC, Inc., et al.***

As previously reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, the Company was named as a defendant in the action *Merrill Lynch Fundamental Growth Fund,*

**Table of Contents****EMDEON CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Inc., et al. v. McKesson HBOC, Inc., et al.*, Case No. 405792, in the San Francisco Superior Court. The original complaint in this matter alleged that McKesson HBOC (now known as McKesson Corp.), HBO and Company (which we refer to as HBOC), certain officers and directors of those firms, Arthur Andersen LLP, and Bear Stearns & Co. engaged in a number of practices whereby HBOC and later McKesson HBOC improperly recognized revenues. When these practices were discovered, McKesson HBOC eliminated more than \$327 million in revenues that HBOC had recognized over the prior three years. The plaintiffs claim to have lost more than \$150 million as a result of the decline in McKesson HBOC's share value after the accounting practices came to light in April 1999.

On September 26, 2003, the plaintiffs filed a fourth amended complaint, naming the Company and other additional defendants for the first time. The complaint alleged that the Company aided and abetted alleged fraud by certain defendants and conspired with those defendants in relation to HBOC's and McKesson HBOC's alleged improper recognition of approximately \$14 million in revenue on two software transactions. The plaintiffs also alleged that the Company made certain negligent misrepresentations with respect to these transactions.

In March 2004, McKesson filed cross-complaints against certain defendants, including the Company, for declaratory relief and indemnification, alleging that, if the plaintiffs' allegations were true, each of these cross-defendants was obligated to indemnify McKesson for any damages, judgment or other awards recovered by the plaintiffs against McKesson.

In the fall of 2004, in response to demurrers filed by the Company, the court dismissed the plaintiffs' claims against the Company and McKesson's cross-complaint against the Company. The plaintiffs and McKesson each appealed the dismissal of their respective claims. In addition, on August 12, 2004, the original plaintiffs in the California lawsuit, Merrill Lynch Fundamental Growth Fund, Inc. and Merrill Lynch Global Value Fund, Inc., filed a separate lawsuit in Superior Court in New Jersey, alleging substantially the same claims as they did in the California lawsuit. In response to the Company's motion to dismiss, plaintiffs filed a First Amended Complaint on January 4, 2005, dropping claims against the Company, but asserting the same claims against the Company's subsidiary WebMD, Inc., the company that engaged in the two software transactions.

On October 28, 2005, with the California appeals pending and the New Jersey action stayed and in order to avoid the costs and uncertainty of further litigation, the Company entered into a settlement with the plaintiffs, McKesson, and several of the co-defendants. The terms of the settlement are confidential. Pursuant to that settlement, plaintiffs, McKesson and the Company each stipulated to the dismissal of their respective appeals, plaintiffs stipulated to dismissal with prejudice of the New Jersey lawsuit against WebMD, Inc., and the parties released the Company and WebMD, Inc. from claims related to the California and New Jersey lawsuits. As a result of the settlement, the Company recorded, during the three months ended September 30, 2005, a charge of \$1,863, which is included in other expense (income) in the accompanying consolidated statements of operations.

***Conceptis Technologies, Inc. Acquisition***

On November 1, 2005, the Company entered into an Asset Purchase Agreement with Conceptis Technologies Inc. (Conceptis), a Canadian corporation, pursuant to which the Company agreed to purchase substantially all of the assets of Conceptis and agreed to assume certain liabilities. Conceptis provides online and offline medical education and promotion aimed at physicians and other healthcare professionals. The purchase price for the acquisition is \$19,000 in cash plus the assumed liabilities. The closing of the acquisition is subject to standard closing conditions, including the receipt of shareholder approval by the shareholders of Conceptis. The results of operations of Conceptis will be included in our WebMD Health segment.

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**ITEM 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

*This Item 2 contains forward-looking statements with respect to possible events, outcomes or results that are, and are expected to continue to be, subject to risks, uncertainties and contingencies, including those identified in this Item. See Forward-Looking Statements on page 3.*

**Overview**

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

*Introduction.* This section provides a general description of our company, a brief discussion of our operating segments, a description of certain recent developments, and background information on certain trends, strategies and other matters discussed in this MD&A.

*Critical Accounting Policies and Estimates.* This section discusses those accounting policies that both are considered important to our financial condition and results of operations, and require us to exercise subjective or complex judgments in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 1 to the Consolidated Financial Statements contained in our 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

*Results of Operations and Results of Operations by Operating Segment.* These sections provide our analysis and outlook for the significant line items on our consolidated statements of operations, on both a company-wide and a segment-by-segment basis.

*Liquidity and Capital Resources.* This section provides an analysis of our liquidity and cash flows, as well as a discussion of our outstanding debt and commitments, that existed as of September 30, 2005.

*Recent Accounting Pronouncements.* This section provides a summary of the most recent authoritative accounting standards and guidance that have either been recently adopted or may be adopted in the future.

*Factors That May Affect Our Future Financial Condition or Results of Operations.* This section describes circumstances or events that could have a negative effect on our financial condition or results of operations, or that could change, for the worse, existing trends in some or all of our businesses. The factors discussed in this section are in addition to factors that may be described elsewhere in this Quarterly Report.

In this MD&A, dollar amounts are in thousands, unless otherwise noted.

**Introduction**

Emdeon Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. We changed our name to Healtheon/WebMD Corporation in November 1999 and to WebMD Corporation in September 2000. Furthermore, we changed our name to Emdeon Corporation in October 2005 in connection with the initial public offering of our WebMD Health subsidiary. See the Recent Developments section elsewhere in this MD&A. Our common stock has traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

**Table of Contents***Operating Segments*

We have aligned our business into four operating segments and a corporate segment as follows:

*Emdeon Business Services (formerly known as WebMD Business Services).* We provide revenue cycle management and clinical communications solutions that enable payers, providers and patients to improve healthcare business processes. We transmit transactions electronically between healthcare payers and providers and provide healthcare payers with transaction processing technology, consulting services and outsourcing services, including document management services for transaction processing and print-and-mail services for the distribution of checks, remittance advice and explanation of benefits. We also provide automated patient billing services to healthcare providers, including statement printing and mailing services. In addition, we provide software products, including decision support and data warehousing solutions, and related maintenance services to Blue Cross Blue Shield and commercial healthcare payers and perform software maintenance and consulting services for certain governmental agencies.

*Emdeon Practice Services (formerly known as WebMD Practice Services).* We develop and market information technology systems for healthcare providers and related services, primarily under The Medical Manager, Intergy and Emdeon Network Services brands. These systems and services allow physician offices to automate their scheduling, billing and other administrative tasks, to transmit transactions electronically, to maintain electronic medical records and to automate documentation of patient encounters.

*WebMD Health.* We provide health information services to consumers, physicians, healthcare professionals, employers and health plans through online portals and specialized publications. Our public and private online portals provide access to news and articles, searchable in-depth information and dynamic interactive services. Our public portals sell advertising and sponsorship programs, including online continuing medical education (CME) services, to companies interested in reaching consumers and physicians online, including pharmaceutical, biotechnology, medical device and consumer products companies. Our private portals are licensed to employers and health plans for use by their employees and members. In addition, we publish medical reference textbooks, healthcare provider directories and *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms.

*Porex.* We develop, manufacture and distribute proprietary porous plastic products and components used in healthcare, industrial and consumer applications, as well as in finished products used in the medical device and surgical markets.

*Corporate.* We provide corporate services across all segments, such as, legal, accounting, tax, treasury, human resource, certain information technology functions and other services. Corporate service costs include compensation related costs, insurance and audit fees, leased property, facilities cost, legal and other professional fees, software maintenance and telecommunication costs.

*Recent Developments*

*WebMD Health Corp. IPO.* In May 2005, we formed a wholly owned subsidiary in preparation for an initial public offering of equity in our WebMD Health segment. The subsidiary was later named WebMD Health Corp. (which we refer to as WHC ) and, in September 2005, we contributed to WHC the subsidiaries, the assets and the liabilities included in our WebMD Health segment. On September 28, 2005, WHC sold, in an initial public offering, 7,935,000 shares of its Class A Common Stock at \$17.50 per share. WHC Class A Common Stock began trading under the symbol WBMD on September 29, 2005. As of September 30, 2005, we owned 48,100,000 shares of WHC Class B Common Stock, representing ownership of approximately 85.8% of the outstanding WHC Common Stock. WHC Class A Common Stock has one vote per share while WHC Class B Common Stock has five votes per share. Therefore, as of September 30, 2005, the WHC Class B Common Stock owned by us represented 96.7% of the combined voting power of WHC's outstanding Common Stock. In addition, WHC granted to



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employees approximately 4,575,000 shares of WHC Class A Common Stock, of which approximately 4,200,000 were in the form of options to purchase shares of WHC Class A Common Stock with an exercise price equal to the initial public offering price per share of \$17.50 and approximately 375,000 were in the form of restricted WHC Class A Common Stock.

We have entered into a number of agreements with WHC governing the future relationship of the companies, including a Services Agreement, a Tax Sharing Agreement, and an Indemnity Agreement. These agreements cover a variety of matters, such as the responsibility for certain liabilities, including tax liabilities, as well as matters related to providing WHC with administrative services, such as payroll, accounting, tax, employee benefit plan, employee insurance, intellectual property, legal and information processing services. Under the Services Agreement, we will receive an amount that reasonably approximates our cost of providing services to WHC. We have agreed to make the services available to WHC for up to five years; however, WHC is not required, under the Services Agreement, to continue to obtain services from us and is able to terminate services, in whole or in part, at any time generally by providing, with respect to the specified services or groups of services, 60 days prior notice and, in some cases, paying a nominal termination fee to cover costs relating to the termination.

*Redemption of 3<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Notes.* On June 2, 2005, we completed the redemption of all of our outstanding 3<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2007 (the "3<sup>1</sup>/<sub>4</sub>% Notes"). During the three months ended September 30, 2005, holders of the 3<sup>1</sup>/<sub>4</sub>% Notes converted a total of \$214,880 principal amount of the 3<sup>1</sup>/<sub>4</sub>% Notes into 23,197,650 shares of our common stock, plus cash in lieu of fractional shares, at a price of \$9.26 per share. We redeemed the balance of \$85,119 principal amount of the 3<sup>1</sup>/<sub>4</sub>% Notes at an aggregate redemption price, together with accrued interest and redemption premium, of \$86,694. The write-off of the unamortized portion of the deferred issuance costs and the payment of the redemption premium resulted in a total charge of \$1,902. This charge is included in other expense (income) in the accompanying consolidated statements of operations and in loss on redemption of convertible debt in the accompanying consolidated statements of cash flows.

*Issuance of 3<sup>1</sup>/<sub>8</sub>% Convertible Notes Due 2025.* On August 24, 2005, we issued \$300,000 aggregate principal amount of 3<sup>1</sup>/<sub>8</sub>% Convertible Notes due 2025 (the "3<sup>1</sup>/<sub>8</sub>% Notes") in a private offering. Unless previously redeemed or converted, the 3<sup>1</sup>/<sub>8</sub>% Notes will mature on September 1, 2025. Interest on the 3<sup>1</sup>/<sub>8</sub>% Notes accrues at the rate of 3<sup>1</sup>/<sub>8</sub>% per annum and is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2006. We will also pay contingent interest of 0.25% per annum to the holders of the 3<sup>1</sup>/<sub>8</sub>% Notes during specified six-month periods, commencing with the six-month period beginning on September 1, 2012, if the average trading price of a 3<sup>1</sup>/<sub>8</sub>% Note for the specified period equals 120% or more of the principal amount of the 3<sup>1</sup>/<sub>8</sub>% Note.

Holders of the 3<sup>1</sup>/<sub>8</sub>% Notes may require us to repurchase their 3<sup>1</sup>/<sub>8</sub>% Notes on September 1, 2012, September 1, 2015 and September 1, 2020, at a price equal to 100% of the principal amount of the 3<sup>1</sup>/<sub>8</sub>% Notes being repurchased, plus any accrued and unpaid interest, payable in cash. Additionally, the holders of the 3<sup>1</sup>/<sub>8</sub>% Notes may require us to repurchase the 3<sup>1</sup>/<sub>8</sub>% Notes upon a change in control of our company at a price equal to 100% of the principal amount of the 3<sup>1</sup>/<sub>8</sub>% Notes, plus accrued and unpaid interest, payable in cash, or, at our option, in shares of our common stock or in a combination of cash and shares of our common stock. On or after September 5, 2010, September 5, 2011 and September 5, 2012, the 3<sup>1</sup>/<sub>8</sub>% Notes are redeemable, at our option, for cash at redemption prices of 100.893%, 100.446% and 100.0%, respectively, plus accrued and unpaid interest.

The 3<sup>1</sup>/<sub>8</sub>% Notes are convertible into an aggregate of 19,273,393 shares of our common stock (representing a conversion price of \$15.57 per share).

*Background Information on Certain Trends and Strategies*

*Transaction Processing Infrastructure Investments.* Our electronic transaction services automate the data exchange between healthcare providers and payers for patient eligibility and benefits information, claims transactions, remittance information, referrals, claim status information and other processes. During 2003 and 2004, the key area of focus for Emdeon Business Services, with respect to its operational and technological



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infrastructure, was preparing for and implementing the transaction standards of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and working with our customers on their own implementations. We incurred significant costs in these HIPAA implementation efforts. Our goal during the remainder of 2005 and in 2006 is to implement infrastructure improvements that enable us to provide our services more efficiently, to consolidate and integrate the infrastructure used by the companies we have acquired and to create additional value-added services for healthcare payers and providers. We expect to make significant capital expenditures on Emdeon Business Services infrastructure improvements in 2005 and 2006.

*Continued Rapid Increases in Healthcare Costs.* In response to rising healthcare costs, employers and health plans have been changing benefit plan designs to increase consumer out-of-pocket costs and have taken other steps to motivate their members and employees to evaluate their healthcare decisions more carefully in order to be more cost effective. This has led employers and health plans to enhance wellness programs and to take steps to provide healthcare information and education to employees and members, including through the use of online services of the types WebMD Health provides through its private portals. We expect the efforts to control healthcare costs to continue and to create opportunities for additional revenue for WebMD Health from providing existing and new products and services through its private portals and its public portals.

*Governmental Initiatives Relating to Healthcare Information Technology.* There are currently numerous federal, state and private initiatives seeking ways to increase the use of information technology in healthcare. These initiatives are generally intended to foster improvements in the quality of care, while reducing costs. A key focus of many of these initiatives is creating incentives for healthcare providers to make investments in information technology or reducing the costs of doing so. Most significantly, in April 2004, Executive Order 13335 directed the appointment of a National Coordinator for Health Information Technology to coordinate programs and policies regarding health information technology across the federal government. The National Coordinator is responsible for directing the health information technology programs within the Department of Health and Human Services, or HHS, and coordinating them with those of other relevant Executive Branch agencies. We believe that we are a good candidate to work with HHS on its initiatives and projects as a result of our experience working with parties throughout the healthcare industry, including:

processing large volumes of electronic healthcare transactions for healthcare payers and providers;

providing electronic health records and practice management software to medical practices and clinics;

providing information technology services to private and governmental healthcare payers; and

providing personal health records and other health information services to consumers.

Governmental initiatives to support the adoption of healthcare information technology also create risks for us, including by encouraging additional companies to enter the markets in which we compete and by encouraging the development of additional technology solutions that compete against ours.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of Emdeon's financial condition and results of operations are based upon our Consolidated Financial Statements and Notes to Consolidated Financial Statements, which were prepared in conformity with U.S. generally accepted accounting principles. The preparation of financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience, current business factors, and various other assumptions that we believe are necessary to form a basis for making judgments about the carrying values of assets and liabilities and disclosure of contingent assets and liabilities. We are subject to uncertainties such as the impact of future events, economic, environmental and political factors, and changes in our business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as



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our operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to our consolidated financial statements.

We evaluate our estimates on an ongoing basis, including those related to revenue recognition, short-term and long-term investments, deferred tax assets, income taxes, collectibility of customer receivables, prepaid advertising and distribution services, long-lived assets including goodwill and other intangible assets, software development costs, inventory valuation, certain accrued expenses, contingencies, litigation and the value attributed to warrants issued for services.

We believe the following reflects our critical accounting policies and our more significant judgments and estimates used in the preparation of our consolidated financial statements:

*Revenue* Our revenue recognition policies for each reportable operating segment are as follows:

*Emdeon Business Services.* Healthcare payers and providers pay us fees for transaction services, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. Healthcare payers and providers also pay us fees for patient statement and paid-claims communication services, typically on a per statement or per communication basis. Additionally, payers, including government payers, pay us fees to license decision support software and provide related support and maintenance for that decision support software, and provide information technology consulting services. Healthcare payers pay us annual license fees, which are based on the number of covered members, for use of our software and pay us time and materials fees for providing business and information technology consulting services to them. The professional consulting services we provide to certain governmental agencies are typically billed on a cost-plus fee structure.

Revenue for transaction services, patient statement and paid-claims communication services is recognized as the services are provided. Decision support software and the related support and maintenance agreements are generally sold as bundled time-based license agreements and, accordingly, the revenue for both the software and related support and maintenance is recognized ratably over the term of the license and maintenance agreement. Revenue for consulting services is recognized as the services are provided.

*Emdeon Practice Services.* Healthcare providers pay us fees to license our Medical Manager and Intergy practice management systems, other practice management systems we own and our Intergy EHR electronic medical records system. Our practice management systems are generally sold as multiple-element arrangements as these software arrangements typically include related hardware, support and maintenance agreements and implementation and training services. We also charge healthcare providers fees for transmitting, through Emdeon Network Services, transactions to payers and billing statements to patients. We recognize revenue from these fees, which are generally paid on a per transaction or monthly basis, as we provide the service.

Software revenue is recognized in accordance with SOP No. 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. Software license revenue is recognized when a customer enters into a non-cancelable license agreement, the software product has been delivered, there are no uncertainties surrounding product acceptance, there are no significant future performance obligations, the license fees are fixed or determinable and collection of the license fee is considered probable. Amounts received in advance of meeting these criteria are deferred. As required by SOP 98-9, the Company determines the value of the software component of its multiple-element arrangements using the residual method as vendor specific objective evidence ( VSOE ) of fair value exists for the undelivered elements such as the support and maintenance agreements and related implementation and training services, but not for all the delivered elements such as the software itself. The residual method requires revenue to be allocated to the undelivered

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elements based on the fair value of such elements, as indicated by VSOE. VSOE is based on the price charged when an element is sold separately.

The vast majority of our practice management and medical records systems include support and maintenance agreements of the underlying software and hardware. These arrangements provide customers with rights to unspecified software product upgrades released during the term of the support period, as well as Internet and telephone access to technical support personnel. Revenue from support and maintenance agreements is recognized ratably over the term of the arrangement, typically one year or less. Additionally, many of our software arrangements include implementation and training services. Revenues from these services are accounted for separately from the software revenue, as they are not essential to the functionality of any other element of the software arrangement, and are generally recognized as the services are performed.

*WebMD Health.* Revenues from advertising are recognized as advertisements are delivered or as publications are distributed. Revenues from sponsorship arrangements, content syndication and distribution arrangements and licenses of our healthcare management tools and private online portals are recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period we deliver the minimum number of CME credit hours required by the applicable agreements. Subscription revenue is recognized over the subscription period. When contractual arrangements contain multiple elements, revenue is allocated to the elements based on their relative fair values, determined using prices charged when elements are sold separately.

*Porex.* We develop, manufacture and distribute porous plastic products and components. For standard products, we recognize revenue upon shipment of product, net of sales returns and allowances. For sales of certain custom products, we recognize revenue upon completion and customer acceptance. Recognition of amounts received in advance is deferred until all criteria have been met.

*Long-Lived Assets* Our long-lived assets consist of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets arise from the acquisitions we have made. The amount assigned to intangible assets is subjective and based on our estimates of the future benefit of the intangible asset using accepted valuation techniques, such as discounted cash flow and replacement cost models. Our long-lived assets, excluding goodwill, are amortized over their estimated useful lives, which we determined based on the consideration of several factors, including the period of time the asset is expected to remain in service. We evaluate the carrying value and remaining useful lives of long-lived assets, excluding goodwill, whenever indicators of impairment are present. We evaluate the carrying value of goodwill annually, or whenever indicators of impairment are present. We use a discounted cash flow approach to determine the fair value of goodwill. There was no impairment of goodwill noted as a result of our impairment testing in 2004.

*Investments* Our investments, at September 30, 2005, consisted principally of certificates of deposit, municipal bonds, auction rate securities, asset-backed securities, Federal Agency Notes, U.S. Treasury Notes and marketable equity securities in publicly traded companies. Each reporting period we evaluate the carrying value of our investments and record a loss on investments when we believe an investment has experienced a decline in value that is other than temporary. Our investments are classified as available-for-sale and are carried at fair value. We do not recognize gains on an investment until sold. Unrealized gains and losses are recorded as a component of accumulated other comprehensive income. Future changes in market or economic conditions or operating results of our investments could result in gains or losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's carrying value. For the nine months ended September 30, 2005, we recognized a loss of \$4,251 on marketable debt securities that we determined were not temporary in nature.

*Deferred Tax Assets* Our deferred tax assets are comprised primarily of net operating loss carryforwards. At September 30, 2005, we had net operating loss carryforwards of approximately

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\$2.0 billion. These loss carryforwards may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. Due to a lack of a history of generating taxable income, we record a valuation allowance equal to 100% of our net deferred tax assets. In the event that we are able to generate taxable earnings in the future and determine it is more likely than not that we can realize our deferred tax assets, an adjustment to the valuation allowance would be made which may increase income in the period that such determination was made.

*Tax Contingencies* Our tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by tax authorities. These potential exposures result from the varying application of statutes, rules, regulations and interpretations. Our estimates of tax contingencies reflect assumptions and judgments about potential actions by taxing jurisdictions. We believe that these assumptions and judgments are reasonable; however, our accruals may change in the future due to new developments in each matter and the ultimate resolution of these matters may be greater or less than the amount that we have accrued.

**Results of Operations**

The following table sets forth our consolidated statements of operations data and expresses that data as a percentage of revenue for the periods presented (amounts in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005		2004		2005		2004	
	\$	%	\$	%	\$	%	\$	%
Revenue	\$ 323,153	100.0	\$ 299,615	100.0	\$ 949,643	100.0	\$ 852,710	100.0
Costs and expenses:								
Cost of operations	182,910	56.6	168,571	56.3	537,023	56.6	495,174	58.1
Development and engineering	14,681	4.5	14,392	4.8	43,778	4.6	38,479	4.5
Sales, marketing, general and administrative	82,386	25.5	84,762	28.3	248,056	26.1	245,054	28.7
Depreciation and amortization	18,895	5.9	15,189	5.1	52,940	5.6	40,922	4.8
Legal expense	5,904	1.8	2,325	0.8	14,347	1.5	6,577	0.8
Restructuring and integration charge			4,535	1.5			4,535	0.5
Interest income	5,125	1.6	4,512	1.5	13,382	1.4	14,506	1.7
Interest expense	2,996	0.9	4,843	1.6	11,672	1.2	14,429	1.7
Other expense (income), net	1,863	0.6	(94)	(0.1)	7,407	0.8	(578)	(0.1)
Income before income tax provision	18,643	5.8	9,604	3.2	47,802	5.0	22,624	2.7
Income tax provision	4,536	1.4	1,435	0.5	7,680	0.8	2,979	0.4
Net income	\$ 14,107	4.4	\$ 8,169	2.7	\$ 40,122	4.2	\$ 19,645	2.3

Revenue is derived from our four business segments: Emdeon Business Services, Emdeon Practice Services, WebMD Health and Porex. Emdeon Business Services provides: electronic transmission services for medical, dental and pharmacy transactions and related technology solutions, consulting services and outsourcing services for healthcare payers, including document management services for transaction processing and print-and-mail services for the distribution of checks, remittance advice and explanation of benefits; and automated patient billing services for healthcare providers, including statement printing and mailing services. Additionally, Emdeon Business Services provides software products including decision support and data warehousing, and related maintenance services to Blue Cross Blue Shield and commercial healthcare payers, and performs software maintenance and consulting services for certain governmental agencies. A significant portion of Emdeon Business Services revenue is generated from the country's largest national and regional healthcare payers. Emdeon Practice Services provides information

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technology systems for healthcare providers, including administrative, financial and clinical applications, primarily under The Medical Manager, Intergy and Emdeon Network Services brands. Emdeon Practice Services also provides support and maintenance services related to the hardware and software associated with our practice management systems and other applications. WebMD Health services include advertising, sponsorship, CME, content syndication and distribution, and licenses of private online portals to employers and healthcare payers for use by their employees and plan members. Our customers include pharmaceutical companies, biotech companies, medical device companies and media companies. Our Porex revenue includes the sale of porous plastic components used to control the flow of fluids and gases for use in healthcare, industrial and consumer applications, as well as in finished products used in the medical device and surgical markets.

Cost of operations consists of costs related to services and products we provide to customers and costs associated with the operation and maintenance of our networks. These costs include salaries and related expenses for network operations personnel and customer support personnel, telecommunication costs, maintenance of network equipment, cost of postage related to our automated print-and-mail services and paid-claims communication services, cost of hardware related to the sale of practice management systems, a portion of facilities expenses, leased personnel and facilities costs, sales commissions paid to certain distributors of our Emdeon Business Services products and non-cash expenses related to content and distribution services. In addition, cost of operations includes raw materials, direct labor and manufacturing overhead, such as fringe benefits and indirect labor related to our Porex segment.

Development and engineering expense consists primarily of salaries and related expenses associated with the development of applications and services. Expenses include compensation paid to development and engineering personnel, fees to outside contractors and consultants, and the maintenance of capital equipment used in the development process.

Sales, marketing, general and administrative expense consists primarily of advertising, product and brand promotion, salaries and related expenses for sales, administrative, finance, legal, information technology, human resources and executive personnel. These expenses include items related to account management and marketing personnel, commissions, costs and expenses for marketing programs and trade shows, and fees for professional marketing and advertising services, as well as fees for professional services, costs of general insurance and costs of accounting and internal control systems to support our operations. Also included are non-cash expenses related to advertising and distribution services acquired in exchange for our equity securities and non-cash stock compensation expense.

Legal expense consists of costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC.

Our discussions throughout MD&A make references to certain non-cash expenses. We consider non-cash expenses to be those expenses that result from the issuance of our equity instruments. The following is a summary of our principal non-cash expenses:

*Non-cash advertising expense.* Expense related to the usage of our prepaid advertising inventory that we received from News Corporation in exchange for equity instruments we issued in connection with an agreement we entered into with News Corporation in 1999 and subsequently amended in 2000. Our non-cash advertising expense is included in cost of operations when we utilize prepaid advertising in conjunction with online advertising and sponsorship programs. Our non-cash advertising expense is included in sales, marketing, general and administrative expense when we utilize the prepaid advertising for promotion of our brand or the brand of one of our subsidiaries.

*Non-cash distribution expense.* Expense related to the amortization of a warrant that we issued to AOL as part of a strategic alliance we entered into with Time Warner in May 2001 under which we became the primary provider of healthcare content, tools and services for use on certain AOL properties. The value of the warrant was amortized over the original three-year term of the strategic alliance and accordingly we have not recorded any non-cash distribution expense since April 2004.





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*Non-cash stock compensation expense.* Expense related to restricted stock awards in our common stock that have been granted to certain of our employees as well as the intrinsic value of the unvested portion of stock options assumed in connection with certain acquisitions in 2000 and options granted in 2000 with exercise prices less than the fair market value of our stock on the date of grant. Non-cash stock compensation expense is reflected in sales, marketing, general and administrative expense within the accompanying consolidated statements of operations.

The following discussion includes a comparison of the results of operations for the three and nine months ended September 30, 2005 to the three and nine months ended September 30, 2004.

*Revenues*

Revenues for the three months ended September 30, 2005 were \$323,153, compared to \$299,615 a year ago. The Emdeon Business Services, WebMD Health and Porex segments were responsible for \$15,859, \$8,077 and \$1,025, respectively, of the revenue increase for the quarter, which was partially offset by a decrease in revenue of \$1,425 in Emdeon Practice Services.

Revenues for the nine months ended September 30, 2005 were \$949,643, compared to \$852,710 a year ago. The Emdeon Business Services, WebMD Health, Emdeon Practice Services and Porex segments were responsible for \$63,290, \$23,956, \$7,410 and \$2,120, respectively, of the revenue increase for the nine months ended September 30, 2005. In addition, there was a decrease of \$157 in inter-segment eliminations.

Revenue from customers acquired through the 2005 Acquisition and 2004 Acquisitions contributed \$13,691, of the overall increase in revenue of \$23,538 for the three months ended September 30, 2005, and \$65,521 of the overall increase in revenue of \$96,933 for the nine months ended September 30, 2005. We integrate acquisitions as quickly as practicable and only revenue recognized during the first twelve months following the quarter in which the acquisition closed is considered to be revenue from acquired customers. In connection with such acquisitions, only revenue from customers of the acquired business existing on the date of the acquisition is considered to be revenue from acquired customers. The remaining increase in revenues is largely attributable to increased revenues in our WebMD Health segment from increased advertising and sponsorship revenues related to WebMD Health's public portals and licensing revenues from WebMD Health's private online portals. In addition, revenues increased in our Emdeon Business Services segment related to growth in our paid-claims communication services and our patient statement services, as well as additional consulting services we provided to our governmental agency customers.

*Costs and Expenses*

*Cost of Operations.* Cost of operations was \$182,910 and \$537,023 for the three and nine months ended September 30, 2005, compared to \$168,571 and \$495,174 in the prior year periods. Our cost of operations represented 56.6% of revenue for both the three and nine months ended September 30, 2005, compared to 56.3% and 58.1% for the three and nine months ended September 30, 2004. The increase in cost of operations as a percentage of revenue and in dollars for the three months ended September 30, 2005 is the result of the inclusion of our ViPS operations, which have lower gross margins as compared to the gross margins of our other operations, increased compensation related costs in our WebMD Health segment due to increased headcount for information technology for our Web site operations and development, as well as higher costs associated with our launch of *WebMD the Magazine*. Offsetting these items for the three months ended September 30, 2005 and favorably impacting cost of operations as a percentage of revenue for the nine months ended September 30, 2005 compared to a year ago, was the impact of productivity gains as a result of streamlining our delivery and service infrastructure within the Emdeon Practice Services operating segment. Also favorably impacting cost of operations for the three and nine months ended September 30, 2005 were lower sales commissions paid to our channel partners and lower data communication expenses in our Emdeon Business Services segment. Included in cost of operations were non-cash expenses related to advertising services of \$74 and \$291 for the three and nine months ended September 30, 2005, compared to \$104 and \$705 in the prior year periods.

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*Development and Engineering.* Development and engineering expense was \$14,681 and \$43,778 for the three and nine months ended September 30, 2005, compared to \$14,392 and \$38,479 in the prior year periods. Our development and engineering expenses represented 4.5% and 4.6% of revenue for the three and nine months ended September 30, 2005, compared to 4.8% and 4.5% for the three and nine months ended September 30, 2004. The increase in development and engineering expense was primarily attributable to the ViPS and HealthShare operations which, due to the timing of these acquisitions, were excluded or partially excluded from our results for the three and nine months ended September 30, 2004. The Dakota operations had a similar impact on development and engineering expense during the nine months ended September 30, 2004, compared to a year ago. Also contributing to the increase in development and engineering expense for the nine months ended September 30, 2005, compared to a year ago, was the increased investment in our product development efforts within the Emdeon Practice Services segment.

*Sales, Marketing, General and Administrative.* Sales, marketing, general and administrative expense was \$82,386 and \$248,056 for the three and nine months ended September 30, 2005, compared to \$84,762 and \$245,054 in the prior year periods. Our sales, marketing, general and administrative expense represented 25.5% and 26.1% of revenue for the three and nine months ended September 30, 2005, compared to 28.3% and 28.7% of revenue for the three and nine months ended September 30, 2004. Included in sales, marketing, general and administrative expense are non-cash expenses related to advertising services, distribution services and stock compensation. Non-cash expenses related to advertising and distribution services were \$1,912 and \$6,708 for the three and nine months ended September 30, 2005, compared to \$3,505 and \$14,188 in the prior year periods. The decrease in non-cash advertising and distribution expense for the three and nine months ended September 30, 2005 was due to lower utilization of our prepaid advertising inventory. Additionally, for the nine months ended September 30, 2005, the decrease in non-cash advertising and distribution expense was the result of a decline in the expense related to our distribution arrangement with AOL which was fully amortized in May of 2004. Non-cash stock compensation was \$1,120 and \$3,487 for the three and nine months ended September 30, 2005, compared to \$2,800 and \$7,241 in the prior year periods. The decrease in non-cash stock-based compensation is primarily related to the vesting schedule of options issued and assumed in connection with business combinations and the restricted stock issued to certain employees in March 2004.

Sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, was \$79,354 and \$237,861 or 24.6% and 25.0% of revenue, for the three and nine months ended September 30, 2005, compared to \$78,457 and \$223,625 or 26.2% of revenue in both prior year periods. The decrease in sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, as a percentage of revenue, was due to lower professional service costs related to our implementation efforts with respect to the HIPAA transaction standards, which were substantially completed in the fourth quarter of 2004. Also contributing to the decrease in our sales, marketing, general and administrative expense, as a percentage of revenue, was the partial inclusion and inclusion of the ViPS operations for the three and nine months ended September 30, 2005, which have lower administrative expenses. Partially offsetting this decrease in expense, as a percentage of revenue for the nine months ended September 30, 2005 was approximately \$3,100 of severance and recruiting expenses within our WebMD Health segment.

*Depreciation and Amortization.* Depreciation and amortization expense was \$18,895 and \$52,940 for the three and nine months ended September 30, 2005, compared to \$15,189 and \$40,922 in the prior year periods. Depreciation and amortization expense represented 5.9% and 5.6% of revenue for the three and nine months ended September 30, 2005, compared to 5.1% and 4.8% of revenue in the prior year periods. The increase was due to additional depreciation and amortization expense relating to the 2005 Acquisition and 2004 Acquisitions, capital expenditures made in our Emdeon Practice Services segment during the later part of 2004 and additional depreciation expense resulting from the leasehold improvements to our WebMD Health segment's New York City headquarters. These increases were slightly offset by a decrease in amortization expense as a result of the intangible asset for Medifax's trade name becoming fully amortized since the beginning of the prior year periods.

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*Legal Expense.* Legal expense was \$5,904 and \$14,347 for the three and nine months ended September 30, 2005, compared to \$2,325 and \$6,577 in the prior year periods. Legal expense represents the costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC. Over the course of the investigation, we expect that these costs may continue to be significant.

*Interest Income.* Interest income was \$5,125 and \$13,382 during the three and nine months ended September 30, 2005, compared to \$4,512 and \$14,506 in the prior year periods. The increase for the three months ended September 30, 2005 was primarily due to the additional interest earned on the proceeds received from the issuance of our 3<sup>1</sup>/<sub>8</sub>% Notes on August 24, 2005. The decrease in interest income for the nine months ended September 30, 2005 was primarily due to lower average investment balances for the nine months ended September 30, 2005, compared to the prior year period.

*Interest Expense.* Interest expense was \$2,996 and \$11,672 for the three and nine months ended September 30, 2005, compared to \$4,843 and \$14,429 in the prior year periods. The decrease for both periods is due to the redemption of the 3<sup>1</sup>/<sub>4</sub>% Notes on June 2, 2005, partially offset by higher interest expense related to the interest and amortization of debt issuance costs for the 3<sup>1</sup>/<sub>8</sub>% Notes issued on August 24, 2005.

*Other Expense (Income), Net.* Other expense (income) for the three and nine months ended September 30, 2005 represents a loss of \$1,863 and \$7,407, compared to a gain of \$94 and \$578 for the three and nine months ended September 30, 2004. During the three months ended September 30, 2005, other expense (income) includes a charge of \$1,863 related to the settlement of the McKesson HBOC litigation. Other expense (income) during the three months ended June 30, 2005 includes a loss of \$1,902 related to the redemption of the 3<sup>1</sup>/<sub>4</sub>% Notes on June 2, 2005. Additionally, during the three months ended March 31, 2005, we recorded \$4,251 for unrealized losses on marketable securities that we identified as securities to be liquidated in the event funds were needed for redemption of our 3<sup>1</sup>/<sub>4</sub>% Notes. Also, included in other expense (income) for the nine months ended September 30, 2005 is \$609, compared to \$94 and \$578 for the three and nine months ended September 30, 2004, related to net gains on the sale of marketable securities and on the sale of property and equipment.

*Income Tax Provision.* The income tax provision of \$4,536 and \$7,680 for the three and nine months ended September 30, 2005, compared to \$1,435 and \$2,979 in the prior year periods, includes tax expense for operations that are profitable in certain state and foreign jurisdictions. In addition, the three and nine months ended September 30, 2005 includes a provision for federal taxes that has not been reduced by the decrease in valuation allowance as these tax benefits were acquired through business combinations.

**Results of Operations by Operating Segment**

We evaluate the performance of our business segments based upon income or loss before restructuring, taxes, non-cash and other items. Non-cash and other items include depreciation, amortization, gain or loss on investments, redemption of the 3<sup>1</sup>/<sub>4</sub>% Notes and sales of property and equipment, costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC ( legal expense ), costs and expenses related to the settlement of the McKesson HBOC litigation, non-cash expenses related to advertising and distribution services acquired in exchange for our equity securities in acquisitions and strategic alliances, and stock compensation expense primarily related to stock options issued and assumed in connection with acquisitions and restricted stock issued to employees. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements contained in our 2004 Annual Report on Form 10-K. We record inter-segment revenues at rates comparable to those charged to third parties for comparable services. Inter-segment revenues are eliminated in consolidation.

On September 28, 2005, WHC sold, in an initial public offering, 7,935,000 shares of its Class A Common Stock. Also during the three months ended September 30, 2005, we entered into a Services Agreement with WHC and modified our segment reporting. A description of the Services Agreement is

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included in the **Recent Developments** section, above, in this MD&A. Our segment reporting has been modified to reflect the services fee we charge to WHC as an increase to the expenses of the WebMD Health segment and an offsetting reduction to the expenses in the Corporate segment. We have reclassified all prior period segment information to conform to the current period presentation. The service fee charged to WHC was \$1,243 and \$4,421 for the three and nine months ended September 30, 2005 and \$1,599 and \$4,636 for the three and nine months ended September 30, 2004, respectively.

Summarized financial information for each of our four operating segments and corporate segment and reconciliation to net income are presented below (amounts in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenues</b>				
Emdeon Business Services	\$ 190,502	\$ 174,643	\$ 567,749	\$ 504,459
Emdeon Practice Services	75,499	76,924	227,113	219,703
WebMD Health	45,094	37,017	119,134	95,178
Porex	20,410	19,385	60,663	58,543
Inter-segment eliminations	(8,352)	(8,354)	(25,016)	(25,173)
	\$ 323,153	\$ 299,615	\$ 949,643	\$ 852,710
<b>Income before restructuring, taxes, non-cash and other items</b>				
Emdeon Business Services	\$ 35,926	\$ 31,750	\$ 114,599	\$ 90,514
Emdeon Practice Services	7,632	5,856	20,212	8,978
WebMD Health (a)	9,077	8,441	15,100	17,572
Porex	6,385	5,823	17,846	17,140
Corporate (a)	(12,738)	(13,571)	(36,485)	(38,067)
Interest income	5,125	4,512	13,382	14,506
Interest expense	(2,996)	(4,843)	(11,672)	(14,429)
	48,411	37,968	132,982	96,214
<b>Restructuring, taxes, non-cash and other items</b>				
Depreciation and amortization	(18,895)	(15,189)	(52,940)	(40,922)
Non-cash advertising and distribution services and stock-based compensation	(3,106)	(6,409)	(10,486)	(22,134)
Legal expense	(5,904)	(2,325)	(14,347)	(6,577)
Restructuring and integration charge		(4,535)		(4,535)
Other (expense) income, net	(1,863)	94	(7,407)	578
Income tax provision	(4,536)	(1,435)	(7,680)	(2,979)
Net income	\$ 14,107	\$ 8,169	\$ 40,122	\$ 19,645

- (a) Income before restructuring, taxes, non-cash and other items during prior periods, for the Corporate and WebMD Health segments, has been reclassified to conform to the current period presentation.

The following discussion is a comparison of the results of operations for each of our operating segments and our corporate segment for the three and nine months ended September 30, 2005 to the three and nine months ended September 30, 2004.

*Emdeon Business Services.* Revenues were \$190,502 and \$567,749 for the three and nine months ended September 30, 2005, an increase of \$15,859 or 9.1% and \$63,290 or 12.5%, compared to the prior year periods. Revenues from customers acquired through the 2004 Acquisitions contributed \$10,794 and \$57,989 to the increase in revenue for the three and nine months ended September 30, 2005. Excluding the 2004 Acquisitions, revenue increased as a result of growth in our paid-claims communication services and our patient statement services, as well as additional consulting services we provided to our governmental agency customers, offset by the continued decrease in revenue for traditional medical services and EDI revenues.

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Income before taxes, non-cash and other items was \$35,926 and \$114,599 for the three and nine months ended September 30, 2005, compared to \$31,750 and \$90,514 in the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 18.9% and 20.2% for the three and nine months ended September 30, 2005, compared to 18.2% and 17.9% for the prior year periods. The increase in our operating margin is primarily the result of lower sales commissions paid to our channel partners, lower data communication expenses and lower professional service costs related to our implementation efforts with respect to the HIPAA transaction standards, which were substantially completed in the fourth quarter of 2004. These lower costs for the nine months ended September 30, 2005 were slightly offset by the ViPS acquisition, which had lower operating margins compared to other services offered by the Emdeon Business Services segment.

*Emdeon Practice Services.* Revenues were \$75,499 and \$227,113 for the three and nine months ended September 30, 2005, a decrease of \$1,425 or 1.9% and an increase of \$7,410 or 3.4%, compared to the prior year periods. The decrease in revenue for the three months ended September 30, 2005, compared to the prior year period, was due to lower systems revenues, offset by higher maintenance revenues and Network Services revenue. The increase in revenue during the nine months ended September 30, 2005 compared to the prior year period was primarily driven by higher maintenance revenues and Network Services revenue. Increased maintenance revenues reflect continued higher renewals of our maintenance and support service contracts.

Income before taxes, non-cash and other items was \$7,632 and \$20,212 for the three and nine months ended September 30, 2005, compared to \$5,856 and \$8,978 in the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 10.1% and 8.9% for the three and nine months ended September 30, 2005, compared to 7.6% and 4.1% for the prior year periods. The increased operating margin is due to revenue mix as well as improvements in our delivery and service infrastructure. This increased operating margin is slightly offset during the nine months ended September 30, 2005 by approximately \$1,300 of severance provided to former members of management and to other employees.

*WebMD Health.* Revenues were \$45,094 and \$119,134 for the three and nine months ended September 30, 2005, an increase of \$8,077 or 21.8% and \$23,956 or 25.2%, compared to the prior year periods. The increase in revenues is the result of increased advertising and sponsorship revenue related to our public portals and licensing revenues from our private online portals. Also contributing to the increases for the three and nine months ended September 30, 2005 is \$2,498 and \$6,370, respectively, from customers acquired through both the 2005 Acquisition and 2004 Acquisitions. Partially offsetting these increases during the nine months ended September 30, 2005 is the loss of revenue from our content syndication agreement with News Corporation, which expired in January of 2005. Included in revenue was \$1,000 during the nine months ended September 30, 2005, compared to revenue of \$3,000 and \$9,000 during the three and nine months ended September 30, 2004, related to the News Corporation agreement.

Income before taxes, non-cash and other items was \$9,077 and \$15,100 for the three and nine months ended September 30, 2005, compared to \$8,441 and \$17,572 in the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 20.1% and 12.7% for the three and nine months ended September 30, 2005, compared to 22.8% and 18.5% for the prior year periods. These decreases as a percentage of revenue were due to higher information technology and sales and marketing expenses, as well as the decline in revenues due to the expiration of the content syndication agreement with News Corporation referred to above, which did not have significant related expenses. Additionally, we incurred charges of approximately \$3,600 during the nine months ended September 30, 2005 primarily related to severance and recruiting expenses. Partially offsetting this decrease in operating margin during the three and nine months ended September 30, 2005 was the inclusion of the 2005 Acquisition and 2004 Acquisitions, which have higher operating margins compared to the other operations of the WebMD Health segment.

*Porex.* Revenues were \$20,410 and \$60,663 for the three and nine months ended September 30, 2005, an increase of \$1,025 or 5.3% and \$2,120 or 3.6%, compared to the prior year periods. Revenues from customers acquired through the 2004 Acquisitions contributed \$399 and \$1,162 for the three and

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nine months ended September 30, 2005. Excluding the 2004 Acquisitions, the increase for the three and nine months ended September 30, 2005, compared to a year ago, was the result of increased sales of filtration products and writing instrument components. Additionally, while not material to the three months ended September 30, 2005, contributing to the increase in revenue for the nine months ended September 30, 2005 was a favorable shift in foreign exchange rates and higher sales of surgical implant products.

Income before taxes, non-cash and other items was \$6,385 and \$17,846 for the three and nine months ended September 30, 2005, compared to \$5,823 and \$17,140 in the prior year periods. As a percentage of revenue, income before taxes, non-cash and other items was 31.3% and 29.4% for the three and nine months ended September 30, 2005, compared to 30.0% and 29.3% for the prior year periods. These increases in operating margin were due to higher revenue discussed above and lower direct expenses related to a change in product mix, slightly offset by higher personnel and professional costs.

*Corporate.* Corporate includes expenses shared across all segments, such as executive personnel, corporate finance, legal, human resources and risk management. Corporate expenses were \$12,738 or 3.9% of revenue and \$36,485 or 3.8% of revenue for the three and nine months ended September 30, 2005, compared to \$13,571 or 4.5% of revenue and \$38,067 or 4.5% of revenue for the prior year period. These expenses, in absolute dollars and as a percentage of revenue, decreased as a result of lower personnel related costs due to lower headcount and lower professional costs related to our Sarbanes-Oxley Section 404 efforts. Additionally, our corporate expenses as a percentage of revenue continue to decrease when compared to the prior periods reflecting our ability to increase revenues without a proportionate increase in corporate costs.

*Inter-Segment Eliminations.* The decrease in inter-segment eliminations for the three and nine months ended September 30, 2005 compared to a year ago resulted from lower sales of Emdeon Business Services products into the Emdeon Practice Services customer base, offset by sales of certain WebMD Health services into our other operating segments.

**Liquidity and Capital Resources**

We have incurred significant operating and net losses since we began operations and, as of September 30, 2005, had an accumulated deficit of approximately \$10.1 billion. We plan to continue to invest in acquisitions, strategic relationships, infrastructure and product development.

As of September 30, 2005, we had approximately \$685,407 in cash and cash equivalents and short-term investments and working capital of \$809,370. Additionally, we had long-term investments of \$147,060 in marketable debt securities and \$4,873 in marketable equity securities. We invest our excess cash principally in U.S. Treasury obligations and Federal Agency Notes and expect to do so in the future. As of September 30, 2005, all of our marketable securities were classified as available-for-sale.

Cash provided by operating activities was \$99,101 for the nine months ended September 30, 2005, compared to cash provided by operating activities of \$79,200 for the nine months ended September 30, 2004. The cash provided by operating activities for the nine months ended September 30, 2005 was attributable to net income of \$40,122 and non-cash and non-operating items of \$80,032, partially offset by net changes in operating assets and liabilities of \$21,053. The impact of changes in operating assets and liabilities may change in future periods, depending on the timing of each period end in relation to items such as internal payroll and billing cycles, payments from customers, payments to vendors, interest payments and interest receipts relating to our investments in marketable securities. The cash provided by operating activities for the nine months ended September 30, 2004 was attributable to net income of \$19,645 and non-cash and non-operating items of \$68,823, partially offset by net changes in operating assets and liabilities of \$9,268. The non-cash and non-operating items consist of depreciation and amortization, non-cash expenses related to advertising and distribution services and stock-based compensation, bad debt expense, amortization of debt issuance costs, loss on the redemption of convertible debt, losses and gains on investments, non-cash reversal of the income tax valuation allowance and gains on sales of property and equipment.



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Cash used in investing activities was \$303,430 for the nine months ended September 30, 2005, compared to cash used in investing activities of \$129,959 for the nine months ended September 30, 2004. Cash used in investing activities for the nine months ended September 30, 2005 included \$180,095 of purchases, net of maturities and sales, of available-for-sale securities. Cash paid for business combinations, net of cash acquired, was \$74,410, which primarily related to an ABF contingent consideration payment and the 2005 Acquisition of HealthShare. Cash used in investing activities for the nine months ended September 30, 2004 included \$119,888 of proceeds from maturities and sales, net of purchases, of available-for-sale securities. Cash paid for business combinations for the nine months ended September 30, 2004, net of cash acquired, was \$225,375, which primarily related to the 2004 Acquisitions of ViPS, Epor and Dakota and an ABF contingent consideration payment of \$17,455. Investments in property and equipment were \$49,325 for the nine months ended September 30, 2005, compared to \$24,889 a year ago. Our investments in property and equipment during the nine months ended September 30, 2005 included approximately \$15,000 related to the build-out of WebMD Health's new corporate offices in New York City.

Cash provided by financing activities was \$241,474 for the nine months ended September 30, 2005, compared to cash provided by financing activities of \$105,943 for the nine months ended September 30, 2004. Cash provided by financing activities for the nine months ended September 30, 2005 consisted of \$289,875 related to the net proceeds from the issuance of the 3<sup>1</sup>/<sub>8</sub>% Notes in August 2005 and \$43,384 related to the issuance of common stock, primarily resulting from exercises of employee stock options, partially offset by cash paid of \$86,694 for the redemption of the 3<sup>1</sup>/<sub>4</sub>% Notes in June 2005 and \$4,596 related to the repurchase of treasury stock. Cash provided by financing activities for the nine months ended September 30, 2004 principally related to the net proceeds of \$98,115 from the issuance of our convertible redeemable exchangeable preferred stock and proceeds of \$30,528 related to the issuance of common stock, primarily related to exercises of employee stock options. For the nine months ended September 30, 2004, \$22,267 was used for repurchases of our common stock.

Our principal commitments at September 30, 2005 were our commitments related to the \$300,000 3<sup>1</sup>/<sub>8</sub>% Convertible Note due in September of 2025, the \$350,000 1.75% Convertible Subordinated Notes due in June of 2023, the \$100,000 Convertible Redeemable Exchangeable Preferred Stock due in 2012, obligations under operating leases and contingent consideration payments of up to an aggregate of \$144,576 related to certain acquisitions achieving certain milestones.

We believe that, for the foreseeable future, we will have sufficient cash resources to meet the commitments described above and our current anticipated working capital and capital expenditure requirements, including the capital requirements related to the roll-out of new or updated products in 2005 and 2006. Our future liquidity and capital requirements will depend upon numerous factors, including retention of customers at current volume and revenue levels, our existing and new application and service offerings, competing technological and market developments, costs of maintaining and upgrading the information technology platforms and communications systems that Emdeon Business Services and WebMD Health use to provide their services, potential future acquisitions and additional repurchases of our common stock. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

As previously stated, WHC sold, on September 28, 2005, 7,935,000 shares of its Class A Common Stock in an initial public offering. WHC retained the net proceeds of the offering, which were not received until October 2005. The offering did not result in any changes to the terms of our long-term debt or other principal commitments and we believe that we will continue, for the foreseeable future after the offering, to have sufficient cash resources to meet the commitments described above in this section and that WHC will, as a result of its retention of the proceeds of the offering, also have sufficient cash resources to meet its commitments and anticipated working capital and capital expenditure requirements.



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In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123, (Revised 2004): Share-Based Payment ( SFAS 123R ), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, ( SFAS 123 ) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the fiscal year that begins after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. We are required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R. We are evaluating the requirements of SFAS 123R and expect that the adoption of SFAS 123R will have a material impact on the consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R.

**Factors That May Affect Our Future Financial Condition or Results of Operations**

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in some or all of our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of the common stock and convertible notes that we have issued. The risks and uncertainties described below are not the only ones facing Emdeon. Additional risks and uncertainties that are not currently known to us or that we currently believe are immaterial may also adversely affect our business and operations.

**Risks Related to the Businesses of  
Emdeon Business Services and Emdeon Practice Services**

*The financial results of Emdeon Business Services could be adversely affected to the extent payers conduct electronic data interchange, or EDI, transactions without using a clearinghouse or if their ability to do so allows them to terminate or modify their relationships with us*

There can be no assurance that healthcare payers will continue to use Emdeon Business Services and other independent companies to transmit healthcare transactions. Some payers currently offer electronic data transmission services to healthcare providers that bypass third-party EDI service providers such as Emdeon Business Services. In addition, some payers currently offer electronic data transmission services through affiliated clearinghouses that compete with Emdeon Business Services. See Some of our customers compete with us and some, instead of using a third party provider, perform internally some of the services that we offer below. We cannot provide assurance that we will be able to maintain our existing relationships with payers or develop new relationships on satisfactory terms, if at all. Although we believe the use of clearinghouses will continue to be the most efficient way for most providers to transact electronically with multiple payers, the transaction standards established by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, may facilitate use of EDI links for transmission of transactions between a greater number of healthcare payers and providers without use of a clearinghouse. Any significant increase in the utilization of links between healthcare providers and payers without use of a third party clearinghouse could have a material adverse effect on Emdeon Business Services transaction volume and financial results. In addition, any increase in the ability of payers to bypass third party EDI service providers may adversely affect the terms and conditions we are able to negotiate in our agreements

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with them, which could also have a material adverse impact on Emdeon Business Services' business and financial results.

*Some of our customers compete with us and some, instead of using a third party provider, perform internally some of the services that we offer*

Some of our existing payer and provider customers and some of our strategic partners compete with us or may plan to do so or belong to alliances that compete with us or plan to do so, either with respect to the same products and services we provide to them or with respect to some of our other lines of business. See Business Competition for Our Healthcare Information Services and Technology Solutions in our Annual Report on Form 10-K for the year ended December 31, 2004. For example, some payers currently offer, through affiliated clearinghouses, Web portals and other means, electronic data transmission services to healthcare providers that allow the provider to bypass third party EDI service providers such as Emdeon Business Services, and additional payers may do so in the future. The ability of payers to do so may adversely affect the terms and conditions we are able to negotiate in our connectivity agreements with them and our transaction volume. We cannot provide assurance that we will be able to maintain our existing relationships for connectivity services with payers or develop new relationships on satisfactory terms, if at all. In addition, some of our services allow healthcare payers to outsource business processes that they have been or could be performing internally and, in order for us to be able to compete, use of our services must be more efficient for them than use of internal resources.

*Emdeon Business Services' transaction volume and financial results could be adversely affected if we do not maintain relationships with practice management system vendors and large submitters of healthcare EDI transactions*

We have developed relationships with practice management system vendors and large submitters of healthcare claims to increase the usage of our Emdeon Business Services transaction services. Emdeon Practice Services is a competitor of these practice management system vendors. Some of these vendors have, as a result of our ownership of Emdeon Practice Services or for other reasons, chosen to diminish or terminate their relationships with Emdeon Business Services, and others may do so in the future. Some other large submitters of claims compete with, or may have significant relationships with entities that compete with, Emdeon Business Services or WebMD Health. We could also lose transaction volume from practice management system vendors and other large submitters of claims if the payments we offer them as an inducement to use our transaction services are not competitive with other alternatives available to them. To the extent that we are not able to maintain mutually satisfactory relationships with the larger practice management system vendors and large submitters of healthcare EDI transactions, Emdeon Business Services' transaction volume and financial results could be adversely affected.

*Contractual relationships with governmental customers may impose special burdens on us and provide special benefits to those customers, including the right to change or terminate the contract in response to budgetary constraints or policy changes*

A portion of Emdeon Business Services' revenues comes from customers that are governmental agencies. The acquisition of ViPS has increased that portion and we intend to seek additional government contracts and subcontracts. Government contracts and subcontracts may be subject to some or all of the following:

termination when appropriated funding for the current fiscal year is exhausted;

termination for the governmental customer's convenience, subject to a negotiated settlement for costs incurred and profit on work completed, along with the right to place contracts out for bid before the full contract term, as well as the right to make unilateral changes in contract requirements, subject to negotiated price adjustments;

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most-favored pricing disclosure requirements that are designed to ensure that the government can negotiate and receive pricing akin to that offered commercially and requirements to submit proprietary cost or pricing data to ensure that government contract pricing is fair and reasonable;

commercial customer price tracking requirements that require contractors to monitor pricing offered to a specified class of customers and to extend price reductions offered to that class of customers to the government;

reporting and compliance requirements related to, among other things: equal employment opportunity, affirmative action for veterans and for workers with disabilities, and accessibility for the disabled;

broader audit rights than we would usually grant to non-governmental customers; and

specialized remedies for breach and default, including setoff rights, retroactive price adjustments, and civil or criminal fraud penalties, as well as mandatory administrative dispute resolution procedures instead of state contract law remedies.

In addition, certain violations of federal law may subject government contractors to having their contracts terminated and, under certain circumstances, suspension and/or debarment from future government contracts. Finally, some of our governmental contracts are priced based on our cost of providing products and services. Those contracts are subject to regulatory cost-allowability standards and a specialized system of cost accounting standards.

*Lengthy sales, installation and implementation cycles for some Emdeon Business Services applications and some Emdeon Practice Services applications may result in unanticipated fluctuations in their revenues*

*Emdeon Practice Services.* Emdeon Practice Services is seeking to increase its sales to larger physician groups and clinics. These sales are typically not only larger in size, but also involve more complex practice management and electronic medical records applications. As a result, we expect longer sales, contracting and implementation cycles for these customers. These sales may be subject to delays due to customers' internal procedures for approving large expenditures and for deploying new technologies; implementation may be subject to delays based on the availability of the internal customer resources needed. We are unable to control many of the factors that will influence the timing of the buying decisions of potential customers or the pace at which installation and training may occur. Unexpected delays in these sales or in their implementation may result in unanticipated fluctuations in the revenues of Emdeon Practice Services.

*ViPS.* ViPS, which is included in our Emdeon Business Services segment, provides licensed software products and related services to payers and information technology services to government customers. The period from our initial contact with a potential ViPS client and the purchase of our solution by the client is difficult to predict. In the past, this period has generally ranged from six to 12 months, but in some cases has extended much longer. Sales by ViPS may be subject to delays due to customers' internal procedures for approving large expenditures, to delays in government funding and to delays resulting from other factors outside of our control. The time it takes to implement a licensed software solution is also difficult to predict and has lasted as long as 12 months from contract execution to the commencement of live operation. Implementation may be subject to delays based on the availability of the internal resources of the client that are needed and other factors outside of our control. As a result, we have only limited ability to forecast the timing of revenue from new ViPS sales. During the sales cycle and the implementation period, we may expend substantial time, effort and money preparing contract proposals and negotiating the contract without receiving any related revenue.

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*Emdeon Practice Services faces competition in providing support services to owners of The Medical Manager and other systems*

Emdeon Practice Services faces competition for the support services it markets to owners of The Medical Manager systems, as well as for similar services that we market to owners of certain other practice management systems that we have acquired. Physician practices may seek such support from third parties, including businesses that support or manage information technology for various types of clients and businesses that specialize in systems for physicians, some of whom may formerly have been independent dealers of The Medical Manager software or of practice management systems we have acquired. We cannot provide assurance that we will be able to compete successfully against these service providers. In addition, some physician practices, especially larger ones, may use their own employees and other internal resources to support their practice management systems. Some of our clients have terminated their support services contracts in the past and we expect such terminations to occur in the future.

**Risks Related to the Businesses of WebMD Health**

*WebMD Health has incurred and may continue to incur losses*

WebMD Health's operating results have fluctuated significantly in the past from quarter to quarter and may continue to do so in the future. WebMD Health's net losses from 2001 to 2003 totaled approximately \$2.6 billion. WebMD Health's online businesses participate in relatively new and rapidly evolving markets. Many companies with business plans based on providing healthcare information through the Internet have failed to be profitable and some have filed for bankruptcy and/or ceased operations. Even if demand from users exists, we cannot assure you that WebMD Health will be profitable.

*The timing of WebMD Health's advertising and sponsorship revenues may vary significantly from quarter to quarter, which could have adverse effects on its operating results*

WebMD Health's advertising and sponsorship revenues may vary significantly from quarter to quarter due to a number of factors, not all of which are in WebMD Health's control, and any of which may be difficult to forecast accurately. The majority of WebMD Health's advertising and sponsorship contracts are for terms of approximately four to 12 months. WebMD Health has relatively few longer term contracts. We cannot assure you that WebMD Health's current customers will continue to participate in advertising and sponsorship programs beyond the terms of their existing contracts or that they will enter into any additional contracts for new programs.

In addition, the time between the date of initial contact with a potential advertiser or sponsor regarding a specific program and the execution of a contract with the advertiser or sponsor for that program may be lengthy, especially for larger contracts, and may be subject to delays over which WebMD Health has little or no control, including as a result of budgetary constraints of the advertiser or sponsor or their need for internal approvals. Other factors that could affect the timing of WebMD Health's revenues from advertisers and sponsors include:

timing of Food and Drug Administration, or FDA, approval for new products or for new approved uses for existing products;

seasonal factors relating to the prevalence of specific health conditions and other seasonal factors that may affect the timing of promotional campaigns for specific products; and

the scheduling of conferences for physicians and other healthcare professionals.

*Lengthy sales and implementation cycles for WebMD Health's private online portals make it difficult to forecast revenues from these applications*

The period from WebMD Health's initial contact with a potential client for a private online portal and the first purchase of its solution by the client is difficult to predict. In the past, this period has

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generally ranged from six to 12 months, but in some cases has been longer. These sales may be subject to delays due to a client's internal procedures for approving large expenditures and other factors beyond WebMD Health's control. The time it takes to implement a private online portal is also difficult to predict and has lasted as long as six months from contract execution to the commencement of live operation. Implementation may be subject to delays based on the availability of the internal resources of the client that are needed and other factors outside of WebMD Health's control. As a result, we have limited ability to forecast the timing of revenue from new private portal clients. This, in turn, makes it more difficult to predict WebMD Health's financial performance from quarter to quarter.

During the sales cycle and the implementation period, WebMD Health may expend substantial time, effort and money preparing contract proposals, negotiating contracts and implementing the private online portal without receiving any related revenue. In addition, many of the expenses related to providing private online portals are relatively fixed in the short term, including personnel costs and technology and infrastructure costs. Even if WebMD Health's revenue from providing private portals is lower than expected, it may not be able to reduce its short-term spending in response. Any shortfall in revenue would have a direct impact on WebMD Health's results of operations.

*If WebMD Health is unable to provide content that attracts and retains users to The WebMD Health Network at a level that is attractive to advertisers and sponsors, WebMD Health's revenues will be reduced*

We believe that interest in WebMD Health's public portals for consumers, physicians and healthcare professionals is based upon WebMD Health's ability to make available health content, decision-support tools and other services that meet the needs of its users. Its ability to do so depends, in turn, on:

its ability to hire and retain qualified authors, journalists and independent writers;

its ability to license quality content from third parties; and

its ability to monitor and respond to increases and decreases in user interest in specific topics.

We cannot assure you that WebMD Health will be able to continue to get needed content at a reasonable cost. If WebMD Health is unable to provide content that attracts and retains users at a level that is attractive to advertisers and sponsors, WebMD Health's revenues will be reduced. In addition, WebMD Health's ability to deploy new interactive tools and other features will require it to continue to improve the technology underlying its Web sites. The required changes may be significant and expensive, and there can be no assurance that WebMD Health will be able to execute them quickly and efficiently.

*If WebMD Health is unable to provide high quality healthcare content for its publishing services business that attracts and retains users, its revenues will be reduced*

Interest in WebMD Health's publications for physicians, such as *The Little Blue Book* and *ACP Medicine* and *ACS Surgery: Principles and Practice*, is based upon its ability to make available up-to-date, high quality health content that meets the needs of its physician users. Although WebMD Health has been able to continue to update and maintain the physician practice information that it publishes in *The Little Blue Book*, if it is unable to continue to do so for any reason, the value of *The Little Blue Book* would diminish and interest in this publication and advertising in this publication would be adversely affected.

Similarly, WebMD Health's ability to maintain or increase the subscriptions to *ACP Medicine* and *ACS Surgery* is based upon its ability to make available up-to-date, high quality content which depends on its ability to retain qualified physician authors and writers in the disciplines covered by these publications. We cannot assure you that WebMD Health will be able to retain qualified physician editors or authors to provide and review needed content at a reasonable cost. If WebMD Health is unable to provide content that attracts and retains subscribers, subscriptions to these products will be reduced. In addition, the American College of Physicians permits WebMD Health to use the ACP name in the title of *ACP Medicine* and the American College of Surgeons permits WebMD Health to use the name ACS in the

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title of *ACS Surgery: Principles and Practice*. If WebMD Health loses the right to use the ACP or ACS name in its publications, subscribers may find the publications less attractive and cease to subscribe to these publications.

*WebMD the Magazine* was launched in April 2005 and as a result has a very short operating history. We cannot assure you that *WebMD the Magazine* will be able to attract advertisers to make this publication successful in the long term.

*A decline in user traffic levels for The WebMD Health Network could have a material adverse effect on its advertising and sponsorship revenues*

WebMD Health generates revenues by, among other things, selling sponsorships of specific pages, sections or events on its network of publicly available online Web sites for healthcare providers and consumers and related e-mailed newsletters. WebMD Health's advertisers and sponsors include pharmaceutical, biotech, medical device and consumer products companies that are interested in communicating with and educating WebMD Health's audience or parts of its audience. We cannot provide assurance that WebMD Health will be able to retain or increase usage of its online public portals by consumers and physicians. There are numerous other online and offline sources of healthcare information services that compete with WebMD Health. In addition, since users may be attracted to *The WebMD Health Network* as a result of a specific condition or for a specific purpose, it is difficult for us to predict the rate at which users will return. A decline in user traffic levels or a reduction in the number of pages viewed by users may cause WebMD Health's revenues to decrease and could have a material adverse effect on its results of operations.

Although a substantial majority of the visitors to *The WebMD Health Network* and the page views generated on *The WebMD Health Network* are from Web sites WebMD Health owns, some are from Web sites owned by third parties that carry WebMD Health's content, including AOL. As a result, WebMD Health's traffic may vary based on the amount of traffic to Web sites of these third parties and other factors outside of WebMD Health's control. In the event that our relationship with AOL or other third party Web sites is terminated, *The WebMD Health Network's* user traffic and page views may be negatively affected, which may negatively affect WebMD Health's results of operations.

*WebMD Health may be unsuccessful in its efforts to increase advertising and sponsorship revenue from consumer products companies*

Most of WebMD Health's advertising and sponsorship revenues have, in the past, come from pharmaceutical, biotechnology and medical device companies. During the past year, WebMD Health has begun to focus on increasing sponsorship revenue from consumer products companies that are interested in communicating health-related or safety-related information about their products to WebMD Health's audience. However, while a number of consumer products companies have indicated an intent to increase the portion of their promotional spending used on the Internet, we cannot assure you that these advertisers and sponsors will find WebMD Health's consumer Web sites to be as effective as other Web sites or traditional media for promoting their products and services. If WebMD Health encounters difficulties in competing with the other alternatives available to consumer products companies, this portion of its business may develop more slowly than we expect or may fail to develop.

*WebMD Health may be subject to claims brought against it as a result of content it provides*

Consumers access health-related information through WebMD Health's online services, including information regarding particular medical conditions and possible adverse reactions or side effects from medications. If WebMD Health's content, or content that it obtains from third parties, contains inaccuracies, it is possible that consumers, employees, health plan members or others may sue WebMD Health for various causes of action. Although WebMD Health's Web sites contain terms and conditions, including disclaimers of liability, that are intended to reduce or eliminate its liability, the law governing the validity and enforceability of online agreements and other electronic transactions is evolving. WebMD



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Health could be subject to claims by third parties that WebMD Health's online agreements with consumers and physicians that provide the terms and conditions for use of WebMD Health's public or private portals are unenforceable. A finding by a court that these agreements are invalid and that WebMD Health is subject to liability could harm its business and require costly changes to its business.

WebMD Health has editorial procedures in place to provide quality control of the information that it publishes or provides. However, we cannot assure you that WebMD Health's editorial and other quality control procedures will be sufficient to ensure that there are no errors or omissions in particular content. Even if potential claims do not result in liability to WebMD Health, investigating and defending against these claims could be expensive and time consuming and could divert management's attention away from operations. In addition, WebMD Health's business is based on establishing the reputation of its portals as trustworthy and dependable sources of healthcare information. Allegations of impropriety or inaccuracy, even if unfounded, could therefore harm WebMD Health's reputation and business.

*WebMD Health faces potential liability related to the privacy and security of personal information it collects on its Web sites*

Internet user privacy has become a controversial issue both in the United States and abroad. WebMD Health has privacy policies posted on its public Web sites and its private online portals that we believe comply with applicable laws requiring notice to users about our information collection, use and disclosure practices. However, whether and how existing privacy and consumer protection laws in various jurisdictions apply to the Internet is still uncertain and may take years to resolve. Any legislation or regulation in the area of privacy of personal information could affect the way WebMD Health operates its public Web sites and its private online portals and could harm its business. Further, we can give no assurance that the privacy policies and other statements on WebMD Health's Web sites, or its practices, will be found sufficient to protect it from liability or adverse publicity in this area.

*Changes in industry guidelines or government regulation could adversely affect WebMD Health's online Medscape continuing medical education offerings*

WebMD Health's continuing medical education (CME) activities are planned and implemented in accordance with the Essential Areas and Policies of the Accreditation Council for Continuing Medical Education, or ACCME, which oversees providers of CME credit, and other applicable accreditation standards. In September 2004, ACCME revised its standards for commercial support of CME. The revised standards are intended to ensure, among other things, that CME activities of ACCME-accredited providers are independent of providers of healthcare goods and services that fund the development of CME. ACCME required accredited providers to implement these standards by May 2005. Implementation has required additional disclosures to CME participants about those in a position to influence content and other adjustments to the management and operations of our CME programs. WebMD Health believes that it has modified procedures as appropriate to meet the revised standards. However, we cannot be certain whether these adjustments will ensure that it meets the new standards or predict whether ACCME may impose additional requirements.

In the event that ACCME concludes that WebMD Health has not met its revised standards relating to CME, we would not be permitted to offer accredited ACCME activities to physicians and healthcare professionals, and WebMD Health may be required, instead, to use third parties to accredit such CME-related services on *Medscape from WebMD*, its primary online portal for physicians. In addition, any failure to maintain its status as an accredited ACCME provider as a result of a failure to comply with existing or new ACCME standards could discourage potential sponsors from engaging in CME or education related activities with WebMD Health, which could have a material adverse effect on its business.

CME activities may also be subject to government regulation by the FDA, the Office of Inspector General (OIG), or the Department of Health and Human Services (HHS), the federal agency responsible for interpreting certain federal laws relating to healthcare, and state regulatory agencies.

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During the past several years, educational programs, including CME, directed toward physicians have been subject to increased scrutiny to ensure that sponsors do not influence or control the content of the program. In response to governmental and industry initiatives, pharmaceutical companies and medical device companies have been developing and implementing internal controls and procedures that promote adherence to applicable regulations and requirements. In implementing these controls and procedures, different clients may interpret the regulations and requirements differently and may implement procedures or requirements that vary from client to client. These controls and procedures:

may discourage pharmaceutical companies from engaging in educational activities;

may slow their internal approval for such programs;

may reduce the volume of sponsored educational programs implemented through *WebMD Health's Medscape* Web site to levels that are lower than in the past; and

may require WebMD Health to make changes to how it offers or provides educational programs, including CME.

In addition, future changes to existing regulations or accreditation standards, or to the internal compliance programs of potential clients may further discourage or prohibit pharmaceutical companies from engaging in educational activities with WebMD Health, or may require it to make further changes in the way it offers or provides educational programs.

**Risks Related to the Development and Performance of the Products and Services of Emdeon Business Services, Emdeon Practice Services and WebMD Health**

*Our ability to generate revenue could suffer if we do not continue to update and improve our existing products and services and develop new ones*

We must introduce new healthcare information services and technology solutions and improve the functionality of our existing products and services in a timely manner in order to retain existing customers and attract new ones. However, we may not be successful in responding to technological and regulatory developments and changing customer needs. The pace of change in the markets we serve is rapid, and there are frequent new product and service introductions by our competitors and by vendors whose products and services we use in providing our own products and services. If we do not respond successfully to technological and regulatory changes and evolving industry standards, our products and services may become obsolete. Technological changes may also result in the offering of competitive products and services at lower prices than we are charging for our products and services, which could result in our losing sales unless we lower the prices we charge. In addition, there can be no assurance that the products we develop or license will be able to compete with the alternatives available to our customers. For more information about the competition we face, see *Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions* in our Annual Report on Form 10-K for the year ended December 31, 2004.

*Developing and implementing new or updated products and services may take longer and cost more than expected*

We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our products and services. The cost of developing new healthcare information services and technology solutions is inherently difficult to estimate. Our development and implementation of proposed products and services may take longer than originally expected, require more testing than originally anticipated and require the acquisition of additional personnel and other resources. If we are unable to develop new or updated products and services on a timely basis and implement them without significant disruptions to the existing systems and processes of our customers, we may lose potential sales and harm our relationships with current or potential customers.

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*New or updated products and services will not become profitable unless they achieve sufficient levels of market acceptance*

There can be no assurance that customers and potential customers will accept from us new or updated products and services or products and services that result from integrating existing and/or acquired products and services, including:

our updated electronic medical records products;

the business process outsourcing services for payers we have developed internally and through acquisition; and

our updated clinical transaction services.

The future results of Emdeon Practice Services and Emdeon Business Services will depend, in significant part, on the success of these products and services and on our ability to keep our other information technology and connectivity products up to date. Providers and payers may choose to use similar products and services offered by our competitors if they are already using products and services of those competitors and have made extensive investments in hardware, software and training relating to the competitors' existing products and services. Even providers and payers who are already our customers may not purchase new or updated products or services, especially when they are initially offered and if they require changes in equipment or workflow. In addition, there can be no assurance that payers who use our services for sending and receiving claims will use our other pre- and post-adjudication services.

For services we are developing or may develop in the future, there can be no assurance that we will attract sufficient customers or that such services will generate sufficient revenues to cover the costs of developing, marketing and providing those services. Furthermore, there can be no assurance that any pricing strategy that we implement for any new products and services will be economically viable or acceptable to the target markets. Failure to achieve broad penetration in target markets with respect to new or updated products and services could have a material adverse effect on our business prospects.

*Achieving market acceptance of new or updated products and services is likely to require significant efforts and expenditures*

Achieving market acceptance for new or updated products and services is likely to require substantial marketing efforts and expenditure of significant funds to create awareness and demand by participants in the healthcare industry. In addition, deployment of new or updated products and services may require the use of additional resources for training our existing sales force and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or updated products and services will justify amounts spent for their development, marketing and roll-out.

*We could be subject to breach of warranty, product liability or other claims if our software products, information technology systems or transmission systems contain errors or experience failures*

Errors in the software and systems we provide to customers or the software and systems we use to provide services could cause serious problems for our customers. For example, errors in our transaction processing systems can result in healthcare payers paying the wrong amount or making payments to the wrong payee. If problems like these occur, our customers may seek compensation from us or may seek to terminate their agreements with us, withhold payments due to us, seek refunds from us of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. We also provide products and services that assist in healthcare decision-making, including some that relate to patient medical histories and treatment plans. If these products malfunction or fail to provide accurate and timely information, we could be subject to product liability claims. In addition, we could face breach of warranty or other claims or additional development costs if our software and systems do not meet contractual performance standards, do not perform in accordance with their documentation, or do not meet the expectations that our customers have for them. Our software and systems are inherently complex and,

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despite testing and quality control, we cannot be certain that errors will not be found in prior versions, current versions or future versions or enhancements. See also *During times when we are making significant changes to our products and services or to systems we use to provide services, there are increased risks of performance problems* below.

We attempt to limit, by contract, our liability for damages arising from our negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to us from liability for damages. We maintain liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of our applicable insurance coverage, if any, or that this coverage may not continue to be available on acceptable terms or in sufficient amounts. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time consuming and could divert management's attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, including unrelated products and services.

*Performance problems with our systems or system failures could cause us to lose business or incur liabilities*

Our customer satisfaction and our business could be harmed if we experience transmission delays or failures or loss of data in the systems we use to provide services to our customers, including the transaction-related services that Emdeon Business Services provides to healthcare payers and providers and the online services that WebMD Health provides. These systems are complex and, despite testing and quality control, we cannot be certain that problems will not occur or that they will be detected and corrected promptly if they do occur. See also *During times when we are making significant changes to our products and services or to systems we use to provide services, there are increased risks of performance problems* below. To operate without interruption, both we and the service providers we use must guard against:

damage from fire, power loss and other natural disasters;

communications failures;

software and hardware errors, failures or crashes;

security breaches, computer viruses and similar disruptive problems; and

other potential interruptions.

We have contingency plans for emergencies with the systems we use to provide services; however, we have limited backup facilities if these systems are not functioning. The occurrence of a major catastrophic event or other system failure at any of our facilities or at a third-party facility we use could interrupt our services or result in the loss of stored data, which could have a material adverse impact on our business or cause us to incur material liabilities. Although we maintain insurance for our business, we cannot guarantee that our insurance will be adequate to compensate us for all losses that may occur or that this coverage will continue to be available on acceptable terms or in sufficient amounts.

*During times when we are making significant changes to our products and services or to systems we use to provide services, there are increased risks of performance problems*

If we do not respond successfully to technological and regulatory changes and evolving industry standards, our products and services may become obsolete. See *Our ability to generate revenue could suffer if we do not continue to update and improve our existing products and services and develop new ones* above. The software and systems that we sell and that we use to provide services are inherently complex and, despite testing and quality control, we cannot be certain that errors will not be found in any enhancements, updates and new versions that we market or use. Even if new products and services do not have performance problems, our technical and customer service personnel may have difficulties in installing them or in their efforts to provide any necessary training and support to customers.

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We expect to make significant changes later in 2005 and during 2006 to the hardware and software Emdeon Business Services uses to provide connectivity services and to the systems WebMD Health uses to create, manage and deliver its portals. Our implementation of changes in these platforms may cost more than originally expected, may take longer than originally expected, and may require more testing than originally anticipated. While the new hardware and software will be tested before it is used in production, we cannot be sure that the testing will uncover all problems that may occur in actual use. If significant problems occur as a result of these changes, we may fail to meet our contractual obligations to customers, which could result in claims being made against us or in the loss of customer relationships. In addition, we cannot provide assurance that changes in these platforms will provide the additional functionality and other benefits that were originally expected.

*If our systems or the Internet experience security breaches or are otherwise perceived to be insecure, our business could suffer*

A security breach could damage our reputation or result in liability. We retain and transmit confidential information, including patient health information, in our processing centers and other facilities. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. We may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by breaches. Despite the implementation of security measures, this infrastructure or other systems that we interface with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any compromise of our security, whether as a result of our own systems or systems that they interface with, could reduce demand for our services. See also Business Government Regulation Health Insurance Portability and Accountability Act of 1996 Security Standards in our Annual Report on Form 10-K for the year ended December 31, 2004.

*Performance problems with Emdeon Business Services systems could affect our relationships with customers of Emdeon Practice Services*

Emdeon Business Services provides the transaction services used by the Network Services customers of Emdeon Practice Services. Disruptions to those services could cause some of those customers to obtain some or all of their software support requirements from competitors of ours or could cause some customers to switch to a competing physician practice management or billing software solution.

*Emdeon Business Services ability to provide transaction services depends on services provided by telecommunications companies*

Emdeon Business Services relies on a limited number of suppliers to provide some of the telecommunications services necessary for its transaction services. The telecommunications industry has been subject to significant changes as a result of changes in technology, regulation and the underlying economy. In the past several years, many telecommunications companies have experienced financial problems and some have sought bankruptcy protection. Some of these companies have discontinued telecommunications services for which they had contractual obligations to Emdeon Business Services. Emdeon Business Services inability to source telecommunications services at reasonable prices due to a loss of competitive suppliers could affect its ability to maintain its margins until it is able to raise its prices to its customers and, if it is not able to raise its prices, could have a material adverse effect on its financial results.

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**Risks Applicable to Our Use of the Internet**

Most of WebMD Health's services are provided through the Internet. In addition, Emdeon Business Services and Emdeon Practice Services provide some Internet-based services and use the Internet to receive some data from customers. The following risks apply to our use of the Internet in our businesses:

*Our Internet-based services are dependent on the development and maintenance of the Internet infrastructure*

Our ability to deliver our Internet-based services is dependent on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products such as high-speed modems, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and the amount of traffic. If the Internet continues to experience increased usage, the Internet infrastructure may be unable to support the demands placed on it. In addition, the reliability and performance of the Internet may be harmed by increased usage.

The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet-based services. In addition, our customers who utilize our Web-based services depend on Internet service providers, online service providers and other Web site operators for access to our Web site. All of these providers have experienced significant outages in the past and could experience outages, delays and other difficulties in the future due to system failures unrelated to our systems. Any significant interruptions in our services or increases in response time could result in a loss of potential or existing users of and advertisers and sponsors on our Web site and, if sustained or repeated, could reduce the attractiveness of our services.

*Delivery of Web-based services requires uninterrupted communications and computer service from third-party service providers and our own systems*

Our Web-based services, including WebMD Health's public Web sites and private online portals, are designed to operate 24 hours a day, seven days a week, without interruption. To do so, we rely on internal systems as well as communications and hosting services provided by third parties. We have experienced periodic system interruptions in the past, and we cannot guarantee that they will not occur again. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event at one of our data centers, we may experience an extended period of system unavailability, which could negatively impact our business. In addition, some of our Web-based services may, at times, be required to accommodate higher than expected volumes of traffic. At those times, we may experience slower response times or system failures. Any sustained or repeated interruptions or disruptions in these systems or increase in their response times could damage our relationships with clients, customers, advertisers and sponsors.

*Third parties may challenge the enforceability of our online agreements*

The law governing the validity and enforceability of online agreements and other electronic transactions is evolving. We could be subject to claims by third parties that the online terms and conditions for use of our Web sites, including disclaimers or limitations of liability, are unenforceable. A finding by a court that these terms and conditions or other online agreements are invalid could harm our business.

*Government regulation of the Internet could adversely affect our business*

The Internet and its associated technologies are subject to government regulation. Our failure, or the failure of our business partners, to accurately anticipate the application of laws and regulations affecting our products and services and the manner in which we deliver them, or any other failure to comply, could

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create liability for us, result in adverse publicity, or negatively affect our business. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services covering user privacy, patient confidentiality, consumer protection and other issues, including pricing, content, copyrights and patents, distribution, and characteristics and quality of products and services. We cannot predict whether these laws or regulations will change or how such changes will affect our business. For more information regarding government regulation of the Internet to which we are or may be subject, see *Business Government Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2004.

**Risks Related to Providing Products and Services to the Healthcare Industry**

*Developments in the healthcare industry could adversely affect our business*

Almost all of the revenues of WebMD Health, Emdeon Business Services and Emdeon Practice Services come from customers in various parts of the healthcare industry. In addition, a significant portion of Porex's revenues come from products used in healthcare or related applications. Developments that result in a reduction of expenditures by customers or potential customers in the healthcare industry could have a material adverse effect on our business.

General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulation or private initiatives that affect the manner in which healthcare providers interact with patients, payers or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services (for additional discussion of the potential effects of regulatory matters on our business and on participants in the healthcare industry, see the other *Risks Related to Providing Products and Services to the Healthcare Industry* described below in this section and *Business Government Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2004);

- consolidation of healthcare industry participants;

- reductions in governmental funding for healthcare; and

- adverse changes in business or economic conditions affecting healthcare payers or providers, pharmaceutical companies, medical device manufacturers or other healthcare industry participants.

Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending on information technology and services or in some or all of the specific segments of that market we serve or are planning to serve. For example, use of our products and services could be affected by:

- changes in the billing patterns of healthcare providers;

- changes in the design of health insurance plans;

- changes in the contracting methods payers use in their relationships with providers; and

- decreases in marketing expenditures by pharmaceutical companies or medical device manufacturers, including as a result of governmental regulation or private initiatives that discourage or prohibit promotional activities by pharmaceutical or medical device companies.

In addition, our customers' expectations regarding pending or potential industry developments may also affect their budgeting processes and spending plans with respect to products and services of the types we provide. See also

Governmental and private initiatives to support adoption of healthcare information technology may encourage additional companies to enter our markets, may provide advantages to our competitors and may result in the development of technology solutions that compete with ours below.

WebMD Health's advertising and sponsorship revenues are particularly dependent on pharmaceutical, biotechnology and medical device companies. WebMD Health's business will be adversely impacted if, as





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a result of changes in business, economic or regulatory conditions or other factors affecting the pharmaceutical, biotechnology or medical device industries, pharmaceutical, biotechnology or medical device companies reduce or postpone:

spending on marketing and educational services;

their use of the Internet as a vehicle for marketing and education; or

their use of any specific service or combination of services that we provide.

The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot provide assurance that the markets for our products and services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

*Governmental and private initiatives to support adoption of healthcare information technology may encourage additional companies to enter our markets, may provide advantages to our competitors and may result in the development of technology solutions that compete with ours*

There are currently numerous federal, state and private initiatives and studies seeking ways to increase the use of information technology in healthcare, including in the physician's office, as a means of improving care and reducing costs. For example, the Department of Health and Human Services (HHS) issued a report during 2004 entitled "The Decade of Health Information Technology: Delivering Consumer-centric and Information-rich Health Care." At Emdeon, an important part of our mission has been fostering adoption of information technology and electronic communications in healthcare. Accordingly, we welcome governmental and private initiatives designed to achieve the same goals. However, these initiatives may encourage more companies to enter our markets, may provide advantages to our competitors and may result in the development of technology solutions that compete with ours.

For example, the Centers for Medicare & Medicaid Services (CMS) and the HHS Office of Inspector General (OIG) are in process of creating exceptions, for electronic health records software and related services, to rules that currently prohibit physicians from accepting certain gifts. See "Business Government Regulation Regulation of Healthcare Relationships" in our Annual Report on Form 10-K for the year ended December 31, 2004. The goal of this initiative is to allow hospitals and physicians to have interoperable electronic health records systems without violating existing laws that govern their relationships. The rule change may cause additional competitors, including providers of hospital information systems, to compete to provide systems for use by our existing and potential physician practice customers and may reduce the prices we are able to charge for our systems and services.

In addition, as part of its initiatives, HHS has indicated that it intends to facilitate the development and transfer of knowledge and technology used by the federal government to the private sector. As a result, the Centers for Medicare & Medicaid Services has been collaborating with the Veterans Health Administration (VHA) and other key federal agencies on the development and distribution of electronic health record software called "VistA-Office EHR" for use in clinics and physician offices, based on the VistA system VHA uses for its own hospitals.

VistA-Office EHR will compete with our IntergyEHR solution and appears likely to be offered at a significantly lower cost than IntergyEHR.

The effect that these initiatives may have on our business is difficult to predict and there can be no assurances that we will adequately address the risks created by these initiatives or that we will be able to take advantage of any resulting opportunities. In addition, competition from information technology products and services made available to healthcare providers on a not-for-profit or other low-cost basis by or on behalf of governmental entities, including VistA-Office EHR, could have an adverse impact on sales of our products and services, including IntergyEHR.

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*Government regulation of healthcare creates risks and challenges with respect to our compliance efforts and our business strategies*

The healthcare industry is highly regulated and is subject to changing political, legislative, regulatory and other influences. Existing and new laws and regulations affecting the healthcare industry could create unexpected liabilities for us, cause us to incur additional costs and could restrict our operations. Many healthcare laws are complex and their application to specific products and services may not be clear. In particular, many existing healthcare laws and regulations, when enacted, did not anticipate the healthcare information services and technology solutions that we provide. However, these laws and regulations may nonetheless be applied to our products and services. Our failure to accurately anticipate the application of these laws and regulations, or other failure to comply, could create liability for us, result in adverse publicity and negatively affect our businesses. Some of the risks we face from healthcare regulation are as follows:

because we are in the business of applying information technology to healthcare, various aspects of HIPAA have had and are expected to continue to have significant consequences for Emdeon Business Services and Emdeon Practice Services and, to a lesser extent, WebMD Health;

because our WebMD Health business involves advertising and promotion of prescription and over-the-counter drugs and medical devices, any increase in regulation of these areas by the Federal Drug Administration or the Federal Trade Commission could make it more difficult for us to contract for sponsorships and advertising;

because we sell items and services to healthcare providers and physicians, our sales and promotional practices must comply with federal and state anti-kickback laws;

our healthcare connectivity and transaction-related administrative services must be provided in compliance with federal and state false claims laws; and

in providing health information to consumers, we must not engage in activities that could be deemed to be practicing medicine and a violation of applicable laws.

For more information regarding the risks that healthcare regulation creates for our businesses, see *Business Government Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2004.

**Risks Related to Porex's Business and Industry**

*Porex's success depends upon demand for its products, which in some cases ultimately depends upon end-user demand for the products of its customers*

Demand for our Porex products may change materially as a result of economic or market conditions and other trends that affect the industries in which Porex participates. In addition, because a significant portion of our Porex products are components that are eventually integrated into or used with products manufactured by customers for resale to end-users, the demand for these product components is dependent on product development cycles and marketing efforts of these other manufacturers, as well as variations in their inventory levels, which are factors that we are unable to control. Accordingly, the amount of Porex's sales to manufacturer customers can be difficult to predict and subject to wide quarter-to-quarter variances.

*Porex's product offerings must meet changing customer requirements*

A significant portion of our Porex products are integrated into end products used by manufacturing companies in various industries, some of which are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. Accordingly, to satisfy its customers, Porex

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must develop and introduce, in a timely manner, products that meet changing customer requirements at competitive prices. To do this, Porex must:

develop new uses of existing porous plastics technologies and applications;

innovate and develop new porous plastics technologies and applications;

commercialize those technologies and applications;

manufacture at a cost that allows it to price its products competitively;

manufacture and deliver its products in sufficient volumes and on time;

accurately anticipate customer needs; and

differentiate its offerings from those of its competitors.

We cannot assure you that Porex will be able to develop new or enhanced products or that, if it does, those products will achieve market acceptance. If Porex does not introduce new products in a timely manner and make enhancements to existing products to meet the changing needs of its customers, some of its products could become obsolete over time, in which case Porex's customer relationships, revenue and operating results would be negatively impacted.

*Potential new or enhanced Porex products may not achieve sufficient sales to be profitable or justify the cost of their development*

We cannot be certain, when we engage in Porex research and development activities, whether potential new products or product enhancements will be accepted by the customers for which they are intended. Achieving market acceptance for new or enhanced products may require substantial marketing efforts and expenditure of significant funds to create awareness and demand by potential customers. In addition, sales and marketing efforts with respect to these products may require the use of additional resources for training our existing Porex sales forces and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or enhanced products will justify amounts spent for their development and marketing. In addition, there can be no assurance that any pricing strategy that we implement for any new or enhanced Porex products will be economically viable or acceptable to the target markets.

*Porex may not be able to source the raw materials it needs or may have to pay more for those raw materials*

Some of Porex's products require high-grade plastic resins with specific properties as raw materials. While Porex has not experienced any material difficulty in obtaining adequate supplies of high-grade plastic resins that meet its requirements, it relies on a limited number of sources for some of these plastic resins. If Porex experiences a reduction or interruption in supply from these sources, it may not be able to access alternative sources of supply within a reasonable period of time or at commercially reasonable rates, which could have a material adverse effect on its business and financial results.

In addition, the prices of some of the raw materials that Porex uses vary, to a great extent, with the price of petroleum. As a result, increases in the price of petroleum could have an adverse effect on Porex's margins and on the ability of Porex's porous plastics products to compete with products made from other raw materials.

*Disruptions in Porex's manufacturing operations could have a material adverse effect on its business and financial results*

Any significant disruption in Porex's manufacturing operations, including as a result of fire, power interruptions, equipment malfunctions, labor disputes, material shortages, earthquakes, floods, computer viruses, sabotage, terrorist acts or other force majeure, could have a material adverse effect on Porex's ability to deliver products to customers and, accordingly, its financial results.

**Table of Contents***Porex may not be able to keep third parties from using technology it has developed*

Porex uses proprietary technology for manufacturing its porous plastics products and its success is dependent, to a significant extent, on its ability to protect the proprietary and confidential aspects of its technology. Although Porex owns certain patents, it relies primarily on non-patented proprietary manufacturing processes. To protect its proprietary processes, Porex relies on a combination of trade secret laws, license agreements, nondisclosure and other contractual provisions and technical measures, including designing and manufacturing its porous molding equipment and most of its molds in-house. Trade secret laws do not afford the statutory exclusivity possible for patented processes. There can be no assurance that the legal protections afforded to Porex or the steps taken by Porex will be adequate to prevent misappropriation of its technology. In addition, these protections do not prevent independent third-party development of competitive products or services.

*The nature of Porex's products exposes it to product liability claims that may not be adequately covered by indemnity agreements or insurance*

The products sold by Porex, whether sold directly to end-users or sold to other manufacturers for inclusion in the products that they sell, expose it to potential risk of product liability claims, particularly with respect to Porex's life sciences, clinical, surgical and medical products. Some of Porex's products are designed to be permanently implanted in the human body. Design defects and manufacturing defects with respect to such products sold by Porex or failures that occur with the products of Porex's manufacturer customers that contain components made by Porex could result in product liability claims and/or a recall of one or more of Porex's products. Porex believes that it carries adequate insurance coverage against product liability claims and other risks. We cannot assure you, however, that claims in excess of Porex's insurance coverage will not arise. In addition, Porex's insurance policies must be renewed annually. Although Porex has been able to obtain adequate insurance coverage at an acceptable cost in the past, we cannot assure you that Porex will continue to be able to obtain adequate insurance coverage at an acceptable cost.

In most instances, Porex enters into indemnity agreements with its manufacturing customers. These indemnity agreements generally provide that these customers would indemnify Porex from liabilities that may arise from the sale of their products that incorporate Porex components to, or the use of such products by, end-users. While Porex generally seeks contractual indemnification from its customers, any such indemnification is limited, as a practical matter, to the creditworthiness of the indemnifying party. If Porex does not have adequate contractual indemnification available, product liability claims, to the extent not covered by insurance, could have a material adverse effect on its business, operating results and financial condition.

Since March 1991, Porex has been named as one of many co-defendants in a number of actions brought by recipients of mammary implants distributed by Porex in the United States. For a description of these actions, see the information under "Legal Proceedings - Porex Mammary Implant Litigation" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

*Economic, political and other risks associated with Porex's international sales and geographically diverse operations could adversely affect Porex's operations and financial results*

Since Porex sells its products worldwide, its business is subject to risks associated with doing business internationally. In addition, Porex has manufacturing facilities in the United Kingdom, Germany and Malaysia. Accordingly, Porex's operations and financial results could be harmed by a variety of factors, including:

changes in foreign currency exchange rates;

changes in a specific country's or region's political or economic conditions, particularly in emerging markets;

trade protection measures and import or export licensing requirements;

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potentially negative consequences from changes in tax laws;

differing protection of intellectual property; and

unexpected changes in regulatory requirements.

*Environmental regulation could adversely affect Porex's business*

Porex is subject to foreign and domestic environmental laws and regulations and is subject to scheduled and random checks by environmental authorities. Porex's business involves the handling, storage and disposal of materials that are classified as hazardous. Although Porex's safety procedures for handling, storage and disposal of these materials are designed to comply with the standards prescribed by applicable laws and regulations, Porex may be held liable for any environmental damages that result from Porex's operations. Porex may be required to pay fines, remediation costs and damages, which could have a material adverse effect on its results of operations.

**Risks Applicable to Our Entire Company**

*The ongoing investigations by the United States Attorney for the District of South Carolina and the SEC could negatively impact our company and divert management attention from our business operations*

The United States Attorney for the District of South Carolina is conducting an investigation of our company. Based on the information available to Emdeon as of the date of this Quarterly Report, we believe that the investigation relates principally to issues of financial accounting improprieties for Medical Manager Corporation, a predecessor of Emdeon (by its merger into Emdeon in September 2000), and our Medical Manager Health Systems subsidiary; however, we cannot be sure of the investigation's exact scope or how long it may continue. In addition, Emdeon understands that the SEC is conducting a formal investigation into this matter. Adverse developments in connection with the investigations, if any, including as a result of matters that the authorities or Emdeon may discover, could have a negative impact on our company and on how it is perceived by investors and potential investors and customers and potential customers. In addition, the management effort and attention required to respond to the investigations and any such developments could have a negative impact on our business operations. For additional information, see "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2004.

Emdeon intends to continue to fully cooperate with the authorities in this matter. While we are not able to estimate, at this time, the amount of the expenses that we will incur in connection with the investigations, we expect that they may continue to be significant.

*We face significant competition for our products and services*

The markets in which we operate are intensely competitive, continually evolving and, in some cases, subject to rapid technological change. Many of our competitors have greater financial, technical, product development, marketing and other resources than we do. These organizations may be better known than we are and have more customers than we do. We cannot provide assurance that we will be able to compete successfully against these organizations or any alliances they have formed or may form. For more information about the competition we face, see "Business - Healthcare Information Services and Technology Solutions - Competition for Our Healthcare Information Services and Technology Solutions" and "Business - Porex - Competition" in our Annual Report on Form 10-K for the year ended December 31, 2004.

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*Third parties may bring claims as a result of the activities of our strategic partners or resellers of our products and services*

We could be subject to claims by third parties, and to liability, as a result of the activities, products or services of our strategic partners or resellers of our products and services. Even if these claims do not result in liability to us, investigating and defending these claims could be expensive, time-consuming and result in adverse publicity that could harm our business.

*Our success depends, in part, on our attracting and retaining qualified executives and employees*

The success of our business depends, in part, on our ability to attract and retain qualified executives, writers and editors, software developers and other technical personnel and sales and marketing personnel. We anticipate the need to hire and retain qualified employees in these areas from time to time. We cannot assure you that we will be able to hire or retain a sufficient number of qualified personnel to meet our requirements, or that we will be able to do so at the salary and benefit costs that are acceptable to us. Failure to do so may have an adverse effect on our business.

*We may not be successful in protecting our intellectual property and proprietary rights*

Our intellectual property is important to all of our businesses. We rely on a combination of trade secret, patent and other intellectual property laws and confidentiality procedures and non-disclosure contractual provisions to protect our intellectual property. We believe that our non-patented proprietary technologies and business and manufacturing processes are protected under trade secret, contractual and other intellectual property rights. However, those rights do not afford the statutory exclusivity provided by patented processes. In addition, the steps that we take to protect our intellectual property, proprietary information and trade secrets may prove to be inadequate and, whether or not adequate, may be expensive.

There can be no assurance that we will be able to detect potential or actual misappropriation or infringement of our intellectual property, proprietary information or trade secrets. Even if we detect misappropriation or infringement by a third party, there can be no assurance that we will be able to enforce our rights at a reasonable cost, or at all. In addition, our rights to intellectual property, proprietary information and trade secrets may not prevent independent third-party development and commercialization of competing products or services.

*Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products or services*

We could be subject to claims that we are misappropriating or infringing intellectual property or other proprietary rights of others. These claims, even if not meritorious, could be expensive to defend and divert management's attention from our operations. If we become liable to third parties for infringing these rights, we could be required to pay a substantial damage award and to develop non-infringing technology, obtain a license or cease selling the products or services that use or contain the infringing intellectual property. We may be unable to develop non-infringing products or services or obtain a license on commercially reasonable terms, or at all. We may also be required to indemnify our customers if they become subject to third-party claims relating to intellectual property that we license or otherwise provide to them, which could be costly.

*We have incurred and may continue to incur losses*

We began operations in January 1996 and, until 2004, had incurred net losses in each year since our inception and, as of September 30, 2005, we had an accumulated deficit of approximately \$10.1 billion. We currently intend to continue to invest in infrastructure development, applications development, marketing and acquisitions. Whether we continue to incur losses in a particular period will depend on, among other things, the amount of such investments and whether those investments lead to increased revenues.

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*We may be subject to litigation*

Our business and operations may subject us to claims, litigation and other proceedings brought by private parties and governmental authorities. For information regarding certain proceedings to which we are currently a party, see Legal Proceedings below and in our Annual Report on Form 10-K for the year ended December 31, 2004 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005.

*Acquisitions, business combinations and other transactions may be difficult to complete and, if completed, may have negative consequences for our business and our securityholders*

Our company has been built, in part, through a series of acquisitions. We intend to continue to seek to acquire or to engage in business combinations with companies engaged in complementary businesses. In addition, we may enter into joint ventures, strategic alliances or similar arrangements with third parties. These transactions may result in changes in the nature and scope of our operations and changes in our financial condition. Our success in completing these types of transactions will depend on, among other things, our ability to locate suitable candidates and negotiate mutually acceptable terms with them, as well as the availability of financing. Significant competition for these opportunities exists, which may increase the cost of and decrease the opportunities for these types of transactions. Financing for these transactions may come from several sources, including:

cash and cash equivalents on hand and marketable securities;

proceeds from the incurrence of indebtedness; and

proceeds from the issuance of additional common stock, preferred stock, convertible debt or other securities.

Our issuance of additional securities could:

cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;

cause substantial dilution of our earnings per share;

subject us to the risks associated with increased leverage, including a reduction in our ability to obtain financing or an increase in the cost of any financing we obtain;

subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and

adversely affect the prevailing market price for our outstanding securities.

We do not intend to seek securityholder approval for any such acquisition or security issuance unless required by applicable law or regulation or the terms of existing securities.

*Our business will suffer if we fail to successfully integrate acquired businesses and technologies or to assess the risks in particular transactions*

We have in the past acquired, and may in the future acquire, businesses, technologies, services, product lines and other assets. The successful integration of the acquired businesses and assets into our operations, on a cost-effective basis, can be critical to our future performance. The amount and timing of the expected benefits of any acquisition, including potential synergies between Emdeon and the acquired business, are subject to significant risks and uncertainties. These risks and uncertainties include, but are not limited to, those relating to:

our ability to maintain relationships with the customers of the acquired business;

our ability to cross-sell products and services to customers with which we have established relationships and those with which the acquired businesses have established relationships;

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our ability to retain or replace key personnel;

potential conflicts in payer, provider, strategic partner, sponsor or advertising relationships;

our ability to coordinate organizations that are geographically diverse and may have different business cultures; and

compliance with regulatory requirements.

We cannot guarantee that any acquired businesses will be successfully integrated with our operations in a timely or cost-effective manner, or at all. Failure to successfully integrate acquired businesses or to achieve anticipated operating synergies, revenue enhancements or cost savings could have a material adverse effect on our business, financial condition and results of operations.

Although our management attempts to evaluate the risks inherent in each transaction and to value acquisition candidates appropriately, we cannot assure you that we will properly ascertain all such risks or that acquired businesses and assets will perform as we expect or enhance the value of our company as a whole. In addition, acquired companies or businesses may have larger than expected liabilities that are not covered by the indemnification, if any, that we are able to obtain from the sellers.

*We may not be able to raise additional funds when needed for our business or to exploit opportunities*

Our future liquidity and capital requirements will depend upon numerous factors, including the success of the integration of our businesses, our existing and new applications and service offerings, competing technologies and market developments, potential future acquisitions and additional repurchases of our common stock. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

*We expect that accounting for employee stock options using the fair value method will have a material impact on our consolidated results of operations and earnings per share*

The FASB has issued SFAS 123R, which will require us to recognize, in our financial statements, all share-based payments to our employees, including grants of employee stock options, based on their fair values beginning with the first quarter of 2006. Emdeon expects that the adoption of SFAS 123R will have a material impact on our consolidated results of operations and earnings per share. See Note 1 to the Consolidated Financial Statements included in this Quarterly Report for more information regarding accounting for stock-based compensation plans. We cannot predict what effect the reduction in our net income may have on the market prices of Emdeon's securities.

*Our use of a new corporate name and the related rebranding of some of our products and services could cause temporary disruptions in some of our businesses*

In October 2005, we changed our corporate name from WebMD Corporation to Emdeon Corporation. In August 2005, we began to use Emdeon in the names of two of our segments, Emdeon Business Services and Emdeon Practice Services, and as a brand for some of their products and services. Until the Emdeon name becomes recognized in the markets in which we compete, we could experience some confusion by existing and potential customers and temporarily be at a competitive disadvantage. Although we intend to devote significant resources to publicizing our new name and communicating with existing and potential customers, the transition period may take longer than anticipated and there may, during that period, be temporary disruptions in some of our businesses.



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**ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***

**Interest Rate Sensitivity**

The primary objective of our investment activities is to preserve principal and maintain adequate liquidity, while at the same time maximizing the yield we receive from our investment portfolio. This objective is accomplished by adherence to our investment policy, which establishes the list of eligible securities and credit requirements for each investment.

Changes in prevailing interest rates will cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents, short-term investments and marketable securities in commercial paper, non-government debt securities, money market funds and highly liquid United States Treasury notes. We view these high grade securities within our portfolio as having similar market risk characteristics.

Principal amounts expected to mature are \$90.3 million, \$534.8 million and \$115.0 million during the remainder of 2005, 2006 and 2007, respectively. These include investments totaling \$352.6 million in Federal Agency Notes that are callable subjecting us to interest rate risk on the reinvestment of these securities. We believe that the impact of any call and resulting reinvestment of proceeds would not have a material effect on our financial condition or results of operations.

We have not utilized derivative financial instruments in our investment portfolio.

**Exchange Rate Sensitivity**

Currently, substantially all of our sales and expenses are denominated in United States dollars; however, Porex is exposed to fluctuations in foreign currency exchange rates, primarily the rate of exchange of the United States dollar against the Euro. This exposure arises primarily as a result of translating the results of Porex's foreign operations to the United States dollar at exchange rates that have fluctuated from the beginning of the accounting period. Porex has not engaged in foreign currency hedging activities to date. Foreign currency translation gains (losses) were \$0.0 million and \$(2.7) million, during the three and nine month periods ended September 30, 2005, respectively, and \$0.2 million and \$(0.1) million, during the three and nine month periods ended September 30, 2004, respectively.

**ITEM 4. *Controls and Procedures***

As required by Exchange Act Rule 13a-15(b), Emdeon management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of Emdeon's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Emdeon's disclosure controls and procedures provided reasonable assurance that all material information required to be filed in this Quarterly Report has been made known to them in a timely fashion.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), Emdeon management, including the Chief Executive Officer and Chief Financial Officer, concluded that no changes in Emdeon's internal control over financial reporting occurred during the third quarter of 2005 that have materially affected, or are reasonably likely to materially affect, Emdeon's internal control over financial reporting.

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**PART II  
OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The information contained in Note 11 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by this reference.

The information regarding *Merrill Lynch Fundamental Growth Fund, Inc., et al. v. McKesson HBOC, Inc., et al.* contained in Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by this reference.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) The following table provides information about purchases by Emdeon during the three months ended September 30, 2005 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
07/01/05-07/31/05		\$		\$ 61,531,935
08/01/05-08/31/05	453,000	10.15	453,000	\$ 56,935,578
09/01/05-09/30/05				\$ 56,935,578
Total	453,000	\$ 10.15	453,000	\$ 56,935,578*

\* After giving effect to the \$145 million increase, on November 1, 2005, in the maximum aggregate amount of purchases authorized, Emdeon had approximately \$200 million available to repurchase shares of its common stock under its Stock Repurchase Program. See Note 6 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

At our Annual Meeting of Stockholders held on September 29, 2005, our stockholders voted with respect to the following matters:

Proposal 1 To elect as Class I directors to serve three-year terms ending in 2008:

Neil F. Dimick	- votes FOR	339,028,088
	- votes withheld	4,066,200
Joseph E. Smith	- votes FOR	330,601,836
	- votes withheld	10,405,683

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Proposal 2 To approve an amendments to our Certificate of Incorporation to change the corporate name of WebMD Corporation to Emdeon Corporation:

Votes FOR:	339,028,088
Votes AGAINST:	1,753,595
Abstentions:	225,835
Broker non-votes:	0

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Proposal 3 To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm to serve as our independent auditor for the fiscal year ending December 31, 2005:

Votes FOR:	340,049,148
Votes AGAINST:	749,116
Abstentions:	226,223
Broker non-votes:	0

As a result, Messrs. Dimick and Smith were each elected to serve a three-year term ending in 2008 and each of Proposal 2 and 3 were approved. For each Proposal, the totals include 10,638,297 votes cast FOR by the holder of our Convertible Redeemable Exchangeable Preferred Stock.

In addition to the directors elected at the Annual Meeting, our Board of Directors consists of: Paul A. Brooke, James V. Manning and Martin J. Wygod, whose terms expire in 2006; and Mark J. Adler, M.D., Kevin Cameron and Herman Sarkowsky, whose terms expire in 2007.

**ITEM 6. Exhibits**

The exhibits listed in the accompanying Exhibit Index on page E-1 are filed or furnished as part of this Quarterly Report.

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**SIGNATURES**

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

Emdeon Corporation  
By: /s/ Andrew C. Corbin

Andrew C. Corbin  
*Executive Vice President and Chief  
Financial Officer*

Date: November 9, 2005

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Eleventh Amended and Restated Certificate of Incorporation of Registrant, as amended (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
3.2	Certificate of Amendment of Eleventh Amended and Restated Certificate of Incorporation of the Registrant Changing Its Name from WebMD Corporation to Emdeon Corporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated October 17, 2005)
3.3	Certificate of Designations for Convertible Redeemable Exchangeable Preferred Stock, as amended (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
3.4	Amended and Restated Bylaws of Registrant, as currently in effect (incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
10.1	Letter Agreement between the Registrant and Andrew C. Corbin dated November 3, 2005
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant