EMDEON CORP
Form 10-Q
November 09, 2005

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] 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	**94-3236644**
(State or other jurisdiction of incorporation or organization)	*(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 þ No o

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

Yes þ No o

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

Yes o No þ

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

EMDEON CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the period ended September 30, 2005
TABLE OF CONTENTS

Page

WebMD®, WebMD Health®, dakota imaging™, Digital Office Manager®, DIM$_{DX}$®, Emdeon™, Emdeon Business Services™, Emdeon Practice Services™, Envoy®, ExpressBill®, Image Director℠, Intergy®, MedicineNet®, Medifax®, Medifax-EDI®, Medpulse®, Medscape®, MEDPOR®, Physician Flow℠, 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.

Table of Contents

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.

Table of Contents

PART I
FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

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

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
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
TOTAL ASSETS	$ 2,686,750	$ 2,292,234
LIABILITIES AND STOCKHOLDERS EQUITY		
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 1/8% convertible notes due 2025	300,000	
3 1/4% 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
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,686,750	$ 2,292,234

See accompanying notes.

4

Table of Contents

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.

Table of Contents

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

	Nine Months Ended September 30,	
	2005	**2004**
Cash flows from operating activities:		
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
Cash flows from investing activities:		
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)
Cash flows from financing activities:		
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)

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.

6

Table of Contents

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.

Table of Contents

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)

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

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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
Numerator:				
Net income	$ 14,107	$ 8,169	$ 40,122	$ 19,645
Denominator:				
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
Net income per common share:				
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

9

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Epor, Inc. (Epor), a privately held company based in Los Angeles, California. Epor manufactures porous plastic implant products for use in aesthetic and reconstructive surgery of the head and face. The total purchase consideration for Epor 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 Epor 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

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

		Nine Months Ended September 30, 2004
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

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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,

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 1/8% Convertible Notes due 2025

On August 24, 2005, the Company issued $300,000 aggregate principal amount of 3 1/8% Convertible Notes due 2025 (the 3 1/8% Notes) in a private offering. Unless previously redeemed or converted, the 3 1/8% Notes will mature on September 1, 2025. Interest on the 3 1/8% Notes accrues at the rate of 3 1/8% 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 1/8% 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 1/8% Note for the specified period equals 120% or more of the principal amount of the 3 1/8% Note.

Holders of the 3 1/8% Notes may require the Company to repurchase their 3 1/8% 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 1/8% Notes being repurchased, plus any accrued and unpaid interest, payable in cash. Additionally, the holders of the 3 1/8% Notes may require the Company to repurchase the 3 1/8% Notes upon

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a change in control of the Company at a price equal to 100% of the principal amount of the $3^1/8$% 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 $3^1/8$% 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 $3^1/8$% 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 $3^1/8$% Notes and of the shares of the Company s common stock issuable upon conversion of the $3^1/8$% Notes: (a) to file with the SEC, within 120 days after the date the $3^1/8$% Notes were originally issued, a shelf registration statement covering resales of $3^1/8$% 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 $3^1/8$% 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 $3^1/8$% 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 $3^1/8$% 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

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 1/4% Convertible Subordinated Notes due 2007

On April 1, 2002, the Company issued $300,000 aggregate principal amount of 3 1/4% Convertible Subordinated Notes due 2007 (the 3 1/4% Notes) in a private offering. Interest on the 3 1/4% Notes accrued at the rate of 3 1/4% per annum and was payable semiannually on April 1 and October 1. At the time of issuance, the 3 1/4% 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 1/4% Notes was converted into 107 shares of the Company s common stock in accordance with the provisions of the 3 1/4% Notes.

On June 2, 2005, the Company completed the redemption of all of the outstanding 3 1/4% Notes. During the three months ended June 30, 2005, holders of the 3 1/4% Notes converted a total of $214,880 principal amount of the 3 1/4% 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 1/4% 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.

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $3^1/4$% 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.

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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
Revenues				
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
Income before restructuring, taxes, non-cash and other items				
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

Table of Contents

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Restructuring, taxes, non-cash and other items				
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
Total	$	753,836	$	750,420