

EMDEON CORP  
Form 10-K/A  
May 10, 2007

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

Form 10-K/A  
Amendment No. 2 to

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

For the fiscal year ended December 31, 2006

or

**o** 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 of incorporation)*

**94-3236644**

*(I.R.S. employer identification no.)*

**669 River Drive, Center 2**

**Elmwood Park, New Jersey**

*(Address of principal executive office)*

**07407-1361**

*(Zip code)*

**(201) 703-3400**

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

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.0001 per share	The Nasdaq Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act:**  
Not Applicable

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$3,286,700,000 (based on the closing price of Emdeon Common Stock of \$12.41 per share on that date, as reported on the Nasdaq National Market System and, for purposes of this computation only, the assumption that all of the registrant's directors and executive officers are affiliates).

As of February 26, 2007, there were 169,494,250 shares of Emdeon Common Stock outstanding (including unvested shares of restricted Emdeon Common Stock issued under our equity compensation plans).

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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### Explanatory Note

Emdeon Corporation (the Company) is filing this Amendment No. 2 to its Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006, originally filed with the Securities and Exchange Commission on March 1, 2007 and amended by Amendment No. 1 on April 30, 2007, to amend and restate its consolidated financial statements for the years ended December 31, 2004 through December 31, 2006 and its selected financial data for the years ended December 31, 2002 through December 31, 2006.

The Company identified an error in its accounting for non-cash income tax expense and related deferred taxes. The error relates to the tax impact of goodwill and certain intangible assets arising from certain business combinations, primarily tax-deductible goodwill which is amortized as an expense for tax purposes over 15 years but is not amortized to expense for financial reporting purposes since the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets as of January 1, 2002. The Company recorded a deferred income tax expense and a deferred tax liability related to the tax-deductible goodwill. However, in preparing its financial statements, the Company incorrectly netted the deferred tax liability resulting from the amortization of tax-deductible goodwill against deferred tax assets (primarily relating to the Company's net operating loss carryforwards) and provided a valuation allowance on the net asset balance. Because the deferred tax liability has an indefinite life, it should not have been netted against deferred tax assets with a definite life when determining the required valuation allowance. As a result, the Company did not record the appropriate valuation allowance and related deferred income tax expense. The deferred tax liability described above will remain on the balance sheet of the Company indefinitely unless there is an impairment of goodwill for financial reporting purposes or the related business entity is disposed of through a sale or otherwise.

The error resulted in an understatement of deferred income tax expense and related deferred tax liability and an overstatement of net income in the aggregate amount of \$3.1 million in the Company's audited financial statements for the years ended December 31, 2006, 2005 and 2004. The error also resulted in an understatement of deferred income tax expense and related deferred tax liability and an overstatement of net income in the aggregate amount of \$1.4 million in the Company's financial statements for the years ended December 31, 2004 and 2003. Additionally, as a portion of the adjustment to deferred income tax expense related to the Company's majority owned subsidiary, WebMD Health Corp. (WHC), the Company has also adjusted the minority interest in WHC for the period of time during the years ended December 31, 2006 and 2005 that WHC was not a 100% owned subsidiary of the Company, which resulted in an adjustment to minority interest in WHC in the aggregate amount of \$0.4 million during the years ended December 31, 2006 and 2005. The impact to the Company's net income, after taking into account the above adjustments, was \$2.7 million in the aggregate during the years ended December 31, 2006, 2005 and 2004. The correction had no effect on the Company's revenues, total assets, cash flows or liquidity for any of these periods and no effect on the Company's pre-tax operating results, other than the effect on minority interest. The Company believes that there will be no effect on its debt agreements or other contractual obligations as a result of this error.

See Note 24, Restatement of Consolidated Financial Statements located in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report, for a summary of the effects of this error on the Company's consolidated financial statements.

The following information has been updated to give effect to the restatement:

**Part II**

**Item 6** *Selected Financial Data*

**Item 7** *Management's Discussion and Analysis of Financial Condition and Results of Operations*

**Item 8** *Financial Statements and Supplementary Data*

**Item 9A** *Controls and Procedures*

**Part IV**

**Item 15** *Exhibits and Financial Statement Schedules*

12.1 Computation of Ratio of Earnings to Fixed Charges

**PART II****Item 6. Selected Financial Data**

The following information has been adjusted to reflect the restatement of our financial results to correct the previously reported income tax provision, which is more fully described in the Explanatory Note on page 1 and Note 24, Restatement of Consolidated Financial Statements located in the Notes to Consolidated Financial Statements elsewhere in this Annual Report. The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and with the consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report.

	<b>Years Ended December 31, (Restated)</b>				
	<b>2006(1)(2)(3)</b>	<b>2005</b>	<b>2004</b>	<b>2003(4)</b>	<b>2002</b>
	<b>(In thousands, except per share data)</b>				
<b>Consolidated Statement of Operations Data:</b>					
Revenue	\$ 1,098,608	\$ 1,026,475	\$ 918,097	\$ 706,676	\$ 633,097
Costs and expenses:					
Cost of operations	623,758	595,654	536,289	417,852	376,426
Development and engineering	33,649	35,653	33,141	24,774	24,502
Sales, marketing, general and administrative	288,015	254,887	244,516	208,185	219,230
Depreciation and amortization	61,976	60,905	48,707	51,475	114,842
Legal expense	2,578	17,835	9,230	3,959	
Gain on sale of EBS	352,297				
Loss (gain) on investments		6,365	(457)	(1,659)	(6,547)
Interest income	32,339	21,527	18,716	22,855	19,578
Interest expense	18,779	16,322	19,251	15,201	8,451
Other expense (income), net	1,674	3,765	4,535	(4,218)	(9,694)
Income (loss) from continuing operations before income tax provision (benefit)	452,815	56,616	41,601	13,962	(74,535)
Income tax provision (benefit)	52,316	3,295	6,946	5,105	(4,405)
Minority interest in WebMD Health Corp. (WHC)	405	775			
Equity in earnings of EBS Master LLC	763				
Income (loss) from continuing operations	400,857	52,546	34,655	8,857	(70,130)
Income (loss) from discontinued operations, net of tax	371,060	16,265	1,956	(27,279)	20,479
Net income (loss)	\$ 771,917	\$ 68,811	\$ 36,611	\$ (18,422)	\$ (49,651)
Basic income (loss) per common share:					
Income (loss) from continuing operations	\$ 1.44	\$ 0.15	\$ 0.11	\$ 0.03	\$ (0.23)
	1.32	0.05	0.00	(0.09)	0.07

Income (loss) from discontinued operations

Net income (loss)	\$	2.76	\$	0.20	\$	0.11	\$	(0.06)	\$	(0.16)
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Diluted income (loss) per common share:

Income (loss) from continuing operations	\$	1.26	\$	0.15	\$	0.10	\$	0.03	\$	(0.23)
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Income (loss) from discontinued operations		1.12		0.05		0.01		(0.09)		0.07
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Net income (loss)	\$	2.38	\$	0.20	\$	0.11	\$	(0.06)	\$	(0.16)
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Weighted-average shares outstanding used in computing income (loss) per common share:

Basic		279,234		341,747		320,080		304,858		304,168
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Diluted		331,642		352,852		333,343		325,811		304,168
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	2006(1)(2)	As of December 31, (Restated)			2002
		2005	2004	2003(4)	
			(In thousands)		
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments	\$ 648,831	\$ 423,003	\$ 101,655	\$ 266,097	\$ 181,268
Long-term marketable securities	2,633	4,430	515,838	456,034	456,716
Working capital (excluding assets and liabilities of discontinued operations)	638,339	413,816	63,221	207,273	116,268
Total assets	1,451,943	2,195,683	2,292,234	2,129,642	1,766,248
Convertible notes	650,000	650,000	649,999	649,999	300,000
Minority interest in WHC	101,860	43,096			
Convertible redeemable exchangeable preferred stock	98,768	98,533	98,299		
Stockholders equity	372,527	1,061,233	1,214,876	1,171,980	1,148,600

- (1) For the year ended December 31, 2006, the consolidated financial position and results of operations reflect the sale of a 52% interest in our Emdeon Business Services segment, excluding the ViPS business unit (which we refer to as EBS) as of November 16, 2006. Accordingly, the consolidated balance sheet as of December 31, 2006 excludes the assets and liabilities of EBS and the consolidated statement of operations for the year ended December 31, 2006 include the operations of EBS for the period January 1, 2006 through November 16, 2006.
- (2) On September 14, 2006, we completed the sale of the Emdeon Practice Services segment. Accordingly, the following selected consolidated financial data has been reclassified to reflect the historical results of the Emdeon Practice Services segment as discontinued operations for this and all prior periods presented.
- (3) On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (Revised 2004): Share Based Payment that resulted in additional non-cash stock-based compensation expense during 2006. See Results of Operations included in Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (4) On August 1, 2003, we completed the sale of two operating units of our Porex segment. Accordingly, the following selected consolidated financial data has been reclassified to reflect the historical results of these two operating units as discontinued operations for this and all prior periods presented.



## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Item 7 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 2.

The following information has been adjusted to reflect the restatement of our financial results to correct the previously reported income tax provision, which is more fully described in the *Explanatory Note* on page 1 and Note 24, *Restatement of Consolidated Financial Statements* located in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

### **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 Annual Report beginning on page F-1 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, a description of significant transactions completed during 2006, a summary of the acquisitions we completed during the last three years and background information on certain trends, strategies and other matters discussed in this MD&A.

*Critical Accounting Estimates and Policies.* 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 making estimates and assumptions. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 1 to the Consolidated Financial Statements included in this Annual Report.

*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, as well as other information that we deem meaningful to understand our results 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 and discussions of our contractual obligations and commitments, as well as our outlook on our available liquidity as of December 31, 2006.

*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.

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 Healthon Corporation. Our common stock began trading on the Nasdaq National Market under the symbol HLTH on February 11, 1999 and now trades on the Nasdaq Global Select Market. We changed our name

to Healtheon/WebMD Corporation in November 1999 and to WebMD Corporation in September 2000 and to Emdeon Corporation in October 2005. The change to Emdeon was made in connection with an initial public offering of equity securities by WebMD Health Corp. (which we refer to as WHC), a subsidiary we formed to act as a holding company for the businesses of the WebMD segment and to issue shares in that initial public offering. Because the WebMD name had been more closely associated with our public and private online portals than with our other businesses, our Board of Directors determined that WHC would, following its initial public offering, have the sole right to use the WebMD name and related trademarks.

As of December 31, 2006, we owned 84.6% of the aggregate amount of outstanding shares of WHC's Class A Common Stock and Class B Common Stock. As such, we consolidate WHC and reflect separately the minority stockholders' 15.4% share of equity and net income of WHC.

On November 16, 2006, we completed the sale of a 52% interest in the business that constituted our Emdeon Business Services segment, excluding its ViPS business unit (which we refer to as EBS) to an affiliate of General Atlantic LLC (which we refer to as the EBS Sale). We are accounting for our remaining 48% ownership interest as an equity investment in our consolidated financial statements. In addition, since the ViPS business was not included in the EBS Sale, it is now being reported as a separate operating segment. For a description of the EBS Sale and related matters, see Significant Transactions Completed During 2006.

On September 14, 2006, we completed the sale of the Emdeon Practice Services segment (which we refer to as EPS) to Sage Software, Inc. (which we refer to as the EPS Sale). Accordingly, the historical results of EPS, including the gain related to the sale have been reclassified as discontinued operations in our financial statements and our discussions in the MD&A reflect EPS as discontinued operations. For a description of the EPS Sale and related matters, see Significant Transactions Completed During 2006.

### ***Operating Segments***

We have aligned our business into four operating segments and one corporate segment. In connection with the EBS Sale and the revised manner in which management views its operations, we have classified the ViPS segment, formerly a business unit of the EBS segment, as a separate operating segment. The following is a description of each of our operating segments and our corporate segment:

*WebMD.* WebMD provides both public and private online portals. WebMD's public portals for consumers enable them to obtain detailed information on a particular disease or condition, analyze symptoms, locate physicians, store individual healthcare information, receive periodic e-newsletters on topics of individual interest, enroll in interactive courses and participate in online communities with peers and experts. WebMD's public portals for physicians and healthcare professionals make it easier for them to access clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education (which we refer to as CME) credit and communicate with peers. WebMD's private portals enable employers and health plans to provide their employees and plan members with access to personalized health and benefit information and decision-support technology that helps them make more informed benefit, provider and treatment choices. In addition, WebMD publishes: medical reference textbooks; *The Little Blue Book*, a physician directory; and, since 2005, *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms. WebMD also conducts in-person CME as a result of the acquisition of the assets of Conceptis Technologies, Inc. in December 2005.

*ViPS.* ViPS provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers. ViPS develops tools for disease management, predictive modeling, provider performance, HEDIS® quality improvement, healthcare fraud detection and financial management. Consultants and outsourcing services are also provided to assess workflow, perform software maintenance, design complex database architectures and perform data analysis and analytic reporting functions.

*Porex.* Porex develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications, which include porous components and finished products for both business-to-business and OEM applications. Porex also provides technologically advanced sterile surgical products used in craniofacial/oculoplastic reconstruction and aesthetic/cosmetic surgery in hospitals,

clinics and private practice surgical offices.

*Emdeon Business Service.* EBS provides solutions that automate key business and administrative functions for healthcare payers and providers, including: electronic patient eligibility and benefit verification; electronic and paper claims processing; electronic and paper paid-claims communication

services; and patient billing, payment and communications services. In addition, EBS provides clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. As a result of the EBS Sale, beginning November 17, 2006, the results of EBS are no longer included in the segment results. See *Significant Transactions Completed During 2006*.

*Corporate.* The Corporate segment provides shared services across all our operating segments. These services include executive personnel, accounting, tax, treasury, legal, human resources, risk management and certain information technology functions. 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. Additionally, in connection with the EPS Sale and EBS Sale, we entered into transition services agreements whereby we have agreed to provide EPS and EBS with certain administrative services, including payroll, accounting, purchasing and procurement, tax, and human resource services, as well as information technology (which we refer to as IT) support. Additionally, EBS will provide us certain administrative services. These services will be provided through the Corporate segment, and the related transition services fee we charge to EBS and EPS, net of the fee we will pay to EBS, will also be included in the Corporate segment, partially offsetting the cost of providing these services. In addition, under the transition services agreement related to EBS, EBS provides certain administrative services to Emdeon, including telecommunication infrastructure and management services, data center support and purchasing and procurement services. Some of the services provided by EBS to Emdeon are, in turn, used to fulfill Emdeon's obligations to provide transition services to EPS. See *Significant Transactions Completed During 2006*.

#### ***Significant Transactions Completed During 2006***

*EPS Sale.* On August 8, 2006, we entered into a Stock Purchase Agreement for the sale of EPS to Sage Software, Inc. (which we refer to as Sage Software), an indirect wholly owned subsidiary of The Sage Group plc. On September 14, 2006, we completed the EPS Sale. We received net cash proceeds of \$532,024, which does not include \$35,000 being held in escrow as security for our indemnification obligations under the Stock Purchase Agreement. One-third and two-thirds of the amount in escrow are scheduled (subject to any claims) to be released twelve and eighteen months from the closing date, and are included in other current assets and other assets, respectively, in the consolidated balance sheet as of December 31, 2006. We incurred approximately \$10,700 of professional fees and other expenses associated with the EPS Sale. In connection with the EPS Sale, we recognized a gain of \$353,158.

In connection with the EPS Sale, we have entered into a transition services agreement with EPS whereby we will provide EPS with certain administrative services, including payroll, accounting, purchasing and procurement, tax and human resource services, as well as IT support. The IT support services are scheduled to continue to September 2008, while the majority of the other services are scheduled to be completed by July 2007. Sage Software may at any time terminate any individual service prior to the scheduled end date, although they will continue to remain liable for any costs we incur due to early termination. In addition to the transition services agreement, EPS agreed to continue its strategic relationship with WebMD and to integrate WebMD's personal health record with the clinical products, including the electronic medical record, of EPS to allow import of data from one to the other, subject to applicable law and privacy and security requirements.

*EBS Sale.* On September 26, 2006, we entered into a definitive agreement for the sale of a 52% interest in EBS to an affiliate of General Atlantic (which we refer to as GA). On November 16, 2006, we completed the EBS Sale. We received net cash proceeds of approximately \$1,209,000 at closing, and received \$10,700 subsequent to December 31, 2006, in connection with a preliminary working capital adjustment. Additionally, we advanced cash of \$10,000 to EBS at closing, to support general working capital needs and paid \$10,016 of expenses on EBSCO's behalf through December 31, 2006. These amounts were repaid in full subsequent to December 31, 2006. The acquisition was

financed with approximately \$925,000 in bank debt and an investment of approximately \$320,000 by GA. The EBS Sale was structured so that Emdeon and GA each own interests in a limited liability company, EBS Master LLC (which we refer to as EBSCo), which owns the entities comprising EBS through a wholly owned limited liability company Emdeon Business Services LLC.

The bank debt is an obligation of Emdeon Business Services LLC and its subsidiaries and is guaranteed by EBSCo, but is not an obligation of or guaranteed by Emdeon or any of Emdeon's subsidiaries. Emdeon's 48% ownership interest in EBSCo is reflected as an investment in Emdeon's consolidated financial statements and is being accounted for under the equity method. In connection with the EBS Sale, we recognized a gain of \$352,297.

In connection with the EBS Sale, we entered into a transition services agreement whereby we will provide EBSCo with certain administrative services, including payroll, accounting, tax, treasury, contract and litigation support, real estate vendor management and human resource services, as well as IT support. Additionally, EBSCo will provide us certain administrative services, including telecommunication infrastructure and management services, data center support and purchasing and procurement services. Some of the services provided by EBS to Emdeon are, in turn, used to fulfill Emdeon's obligations to provide transition services to EPS. The services have various scheduled end dates, the longest of which extend one year from the EBS Sale. EBSCo or Emdeon may at any time terminate any individual service being received prior to the scheduled end date, although they will continue to remain liable for any costs incurred by the providing party due to early termination. In addition to the transition services agreement, EBS agreed to license certain de-identified data to Emdeon and its subsidiaries, including WebMD, for use in the development and commercialization of certain applications that use clinical information, including consumer decision-support applications.

*Tender Offer.* On October 20, 2006, we commenced a tender offer to purchase, as amended, up to 140,000,000 shares of Emdeon Common Stock at a price of \$12.00 per share (which we refer to as the 2006 Tender Offer). On December 4, 2006, we completed the 2006 Tender Offer and, as a result, repurchased 129,234,164 shares of Emdeon Common Stock at a price of \$12.00 per share. The total cost of the 2006 Tender Offer was approximately \$1.55 billion, which includes approximately \$1,309 of costs directly attributable to the purchase. Through the 2006 Tender Offer and our stock repurchase programs, we purchased a total of 137,474,409 shares of Emdeon Common Stock during 2006, at an average price of \$11.90 per share.

*New Stock Repurchase Plan.* In December 2006, we announced a new stock repurchase program (which we refer to as the 2006 Repurchase Program), through which we were authorized to use up to \$100,000 to purchase shares of Emdeon Common Stock from time to time, in the open market, through block trades or in private transactions. The 2006 Repurchase Program replaced a previous stock repurchase program. As of December 31, 2006, \$88,676 remained available for repurchases under the 2006 Repurchase Program.

### ***Acquisitions***

During 2006, we acquired five companies, Subimo LLC (which we refer to as Subimo), Medsite, Inc. (which we refer to as Medsite), Interactive Payer Network, Inc. (which we refer to as IPN), Summex Corporation (which we refer to as Summex) and eMedicine.com, Inc. (which we refer to as eMedicine), or which we collectively called the 2006 Acquisitions.

On December 15, 2006, through WHC, we acquired Subimo, a privately held provider of healthcare decision support applications to large employers, health plans and financial institutions. The total purchase consideration for Subimo was approximately \$59,320, comprised of \$32,820 in cash paid at closing, net of cash acquired, \$26,000 of WHC equity and \$500 of estimated acquisition costs. The \$26,000 of WHC equity, equal to 640,930 shares of WHC Class A Common Stock, will not be issued until December 2008, subject to certain conditions. While a maximum of 246,508 of these shares may be used to settle any outstanding claims or warranties against the sellers, the remaining 394,422 of these shares will be issued with certainty. Accordingly, we recorded a gain to equity of \$11,627, in connection with the issuance of these 394,422 WHC shares. The results of operations of Subimo have been included in our financial statements from December 15, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On September 11, 2006, through WHC, we acquired the interactive medical education, promotion and physician recruitment businesses of Medsite. The total purchase consideration for Medsite was approximately \$31,467, comprised of \$30,682 in cash, net of cash acquired, and \$785 of estimated



acquisition costs. The results of operations of Medsite have been included in our financial statements from September 11, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On July 18, 2006, we acquired IPN, a privately held provider of healthcare electronic data interchange services. The total purchase consideration for IPN was approximately \$3,907, comprised of \$3,799 in cash, net of cash acquired, and \$108 of estimated acquisition costs. In addition, we agreed to pay up to an additional \$3,000 in cash over a two-year period beginning in August 2007 if certain financial milestones are achieved. The IPN business is part of the EBS businesses that were sold on November 16, 2006. Accordingly, the results of operations of IPN have been included in our financial statements, specifically within our EBS segment, from July 18, 2006, the closing date of the acquisition, through November 16, 2006, the closing date of the EBS Sale. The obligation to pay up to \$3,000 in earn out payments was transferred in connection with the EBS Sale and is no longer our obligation.

On June 13, 2006, through WHC, we acquired Summex, a provider of health and wellness programs that include online and offline health risk assessments, lifestyle education and personalized telephonic health coaching. The total purchase consideration for Summex was approximately \$30,191, comprised of \$29,691 in cash, net of cash acquired, and \$500 of estimated acquisition costs. In addition, we have agreed to pay up to an additional \$10,000 in cash over a two-year period if certain financial milestones are achieved. The results of operations of Summex have been included in our financial statements from June 13, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On January 17, 2006, through WHC, we acquired eMedicine, a privately held online publisher of medical reference information for physicians and other healthcare professionals. The total purchase consideration for eMedicine was approximately \$25,195, comprised of \$24,495 in cash, net of cash acquired, and \$700 of estimated acquisition costs. The results of operations of eMedicine have been included in our financial statements from January 17, 2006, the closing date of the acquisition, and are included in the WebMD segment.

During 2005, we acquired the assets of Conceptis Technologies, Inc. (which we refer to as Conceptis) and HealthShare Technology, Inc. (which we refer to as HealthShare), or which we collectively called the 2005 Acquisitions.

On December 2, 2005, through WHC, we acquired the assets of and assumed certain liabilities of Conceptis, a privately held Montreal-based provider of online and offline medical education and promotion aimed at physicians and other healthcare professionals. The total purchase consideration for Conceptis was approximately \$19,859, comprised of \$19,256 in cash and \$603 of estimated acquisition costs. The results of operations of Conceptis have been included in our financial statements from December 2, 2005, the closing date of the acquisition, and are included in the WebMD segment.

On March 14, 2005, through WHC, we acquired 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 for HealthShare was approximately \$29,985, comprised of \$29,533 in cash, net of cash acquired, and \$452 of estimated acquisition costs. The results of operations of HealthShare have been included in our financial statements from March 14, 2005, the closing date of the acquisition, and are included in the WebMD segment.

During 2004, we acquired six companies, MedicineNet, Inc. (which we refer to as MedicineNet), Esters Filtertechnik GmbH (which we refer to as Esters), RxList, LLC (which we refer to as RxList), ViPS, Inc. (which we refer to as ViPS), Epor, Inc. (which we refer to as Epor) and Dakota Imaging, Inc. (which we refer to as Dakota), or which we collectively called the 2004 Acquisitions.

On December 24, 2004, through WHC, we acquired MedicineNet, a privately held health information Web site for consumers. The total purchase consideration for MedicineNet was approximately \$17,223, comprised of \$16,732 in cash, net of cash acquired, and \$491 of acquisition costs. In addition, we have 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. We paid \$7,250 in April 2006 as a result of these thresholds being met. The results of operations of MedicineNet have been included in the WebMD segment.

During October 2004, we acquired Esters, a privately held distributor of porous plastic products and components. The total purchase consideration for Esters was approximately \$3,333, comprised of \$3,160 in cash, net of cash acquired, and \$173 of acquisition costs. The results of operations of Esters have been included in our financial statements from the closing date of the acquisition and are included in the Porex segment.

On October 1, 2004, through WHC, we acquired RxList, a privately held provider of an online drug directory for consumers and healthcare professionals. The total purchase consideration for RxList was approximately \$5,216, comprised of \$4,500 in cash at the time of acquisition, \$500 paid in 2006 and \$216 of acquisition costs. In addition, we have 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. We paid \$2,387 in February 2006 as a result of the achievement of those page views exceeding certain thresholds. The results of operations of RxList have been included in our financial statements from October 1, 2004, the closing date of the acquisition, and are included in the WebMD segment.

On August 11, 2004, we completed the acquisition of ViPS, a privately held provider of information technology, decision support solutions and consulting services to government, Blue Cross Blue Shield and commercial healthcare payers. 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 results of operations of ViPS have been included in our financial statements from August 11, 2004, the closing date of the acquisition, and are reflected as its own operating segment.

On July 15, 2004, we acquired the assets of 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 at the time of acquisition, \$490 to be paid over five years, of which \$90 was paid during 2005 and an additional \$100 was paid during 2006, and \$57 of acquisition costs. The results of operations of Epor have been included in our financial statements from July 15, 2004, the closing date of the acquisition, and are included in the Porex segment.

On April 30, 2004, we acquired Dakota, a privately held provider of automated healthcare claims processing technology and business process outsourcing services. We paid approximately \$38,979 in cash, net of cash acquired, \$527 of acquisition costs and 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 or April 2006 in connection with the first and second earn out years ending March 2005 and March 2006, respectively. The Dakota business is part of the EBS businesses that were sold on November 16, 2006. Accordingly, the results of operations of Dakota have been included in our financial statements, specifically within our EBS segment from April 30, 2004, the closing date of the acquisition, through November 16, 2006, the closing date of the EBS Sale. The obligation to pay up to \$25,000 in earn out payments is the obligation of Emdeon and was not transferred in connection with the EBS Sale.

### ***Background Information on Certain Trends and Strategies***

*Increased Online Marketing and Education Spending for Healthcare Products.* Pharmaceutical, biotechnology and medical device companies spend large amounts each year marketing their products and educating consumers and physicians about them, however, only a small portion of this amount is currently spent on online services. We believe

that these companies, who comprise the majority of WebMD's advertisers and sponsors, are becoming increasingly aware of the effectiveness of the Internet relative to traditional media in providing health, clinical and product-related information to consumers and physicians. We expect that this increasing awareness will result in increasing demand for WebMD's services.

*Changes in Health Plan Design; Health Management Initiatives.* While overall healthcare costs have been rising at a rapid annual rate, employers' costs of providing healthcare benefits to their employees have been increasing at an even faster rate. In response to these increases, employers are seeking to shift a greater portion of healthcare costs onto their employees and to redefine traditional health benefits. Employers and health plans want to motivate their members and employees to evaluate their healthcare decisions more carefully in order to be more cost-effective. As employers continue to implement high deductible and consumer-directed healthcare plans (referred to as CDHPs) and related Health Savings Accounts (referred to as HSAs) to achieve these goals, we believe that WebMD will be able to attract more employers and health plans to use its private online portals and related services. In addition, health plans and employers have begun to recognize that encouraging the good health of their members and employees not only benefits the members and employees but also has financial benefits for the health plans and employers. Accordingly, many employers and health plans have been enhancing health management programs and taking steps to provide healthcare information and education to employees and members, including through online services. We believe that WebMD is well positioned to benefit from these trends because WebMD's private portals provide the tools and information employees and plan members need in order to make more informed decisions about healthcare provider, benefit and treatment options.

*Changes in CMS Procurement Procedures.* ViPS is currently in the process of responding to a Request for Proposals issued by The Centers for Medicare & Medicaid Services, or CMS, for a new indefinite delivery/indefinite quantity or IDIQ, performance-based-contracting vehicle named Enterprise Systems Development, or ESD, under which ViPS expects CMS to award four to six prime contracts to the bidders that are selected through the process. We understand that it is CMS' intent to procure most, if not all, information technology development work through this contract vehicle for approximately the next ten (10) years. Accordingly, there will be fewer companies awarded prime contracts, and those that are selected are likely to receive broader contracts than those made under the PITS contracting vehicle. If ViPS is not selected to be one of the four to six prime contractors under ESD, it will have only the more limited opportunity to pursue work under ESD as a subcontractor. There can be no assurance that ViPS will be awarded a prime contract under ESD or, if it is not awarded a prime contract, that opportunities as a subcontractor will be available or that ViPS will be selected as a subcontractor. As a result, if ViPS is not awarded a prime contract under ESD, its revenue from CMS programs could be significantly reduced.

## **Critical Accounting Estimates and Policies**

### ***Critical Accounting 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 consider in order to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, 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 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, long-lived assets including goodwill and other intangible assets, software development costs, inventory valuation, Web site development costs, prepaid advertising and distribution services, certain accrued expenses, contingencies, litigation and the value attributed to employee stock options and other stock-based awards.

### ***Critical Accounting Policies***

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:

***WebMD.*** Revenue from advertising is recognized as advertisements are delivered or as publications are distributed. Revenue from sponsorship arrangements, content syndication and distribution arrangements and licenses of healthcare management tools and private portals as well as related health coaching services are recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period WebMD substantially complete our contractual deliverables as determined by the applicable agreements. Subscription revenue is recognized over the subscription period. When contractual arrangements contain multiple elements, revenue is allocated to each element based on its relative fair value determined using prices charged when elements are sold separately. In certain instances where fair value does not exist for all the elements, the amount of revenue allocated to the delivered elements equals the total consideration less the fair value of the undelivered elements. In instances where fair value does not exist for the undelivered elements, revenue is recognized when the last element is delivered.

***ViPS.*** ViPS generates revenue by licensing data warehousing and decision support software and providing related support and maintenance for that software, and by providing information technology consulting services to payers, including governmental payers. We charge healthcare payers annual license fees, which are typically based on the number of covered members, for use of their software and provide business and information technology consulting services to them on a time and materials basis. The professional consulting services we provide to certain governmental agencies are typically billed on a cost-plus fee structure. Data warehousing and 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.

***Porex.*** Porex develops, manufactures and distributes porous plastic products and components. For standard products, Porex recognizes revenue upon shipment of product, net of sales returns and allowances. For sales of certain custom products, Porex recognizes revenue upon completion and customer acceptance. Recognition of amounts received in advance is deferred until all criteria have been met.

***Emdeon Business Services.*** Through the date of the EBS Sale on November 16, 2006, healthcare payers and providers paid 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 paid us fees for document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. EBS generally charged a one-time implementation fee to healthcare payers and providers at the inception of a contract, in connection with their related setup to submit and receive medical claims and other related transactions through EBS's clearinghouse network. Revenue for transaction services, patient statement and paid-claims communication services was recognized as the services were provided. The implementation fees were deferred and amortized to revenue on a straight line basis over the contract period of the related transaction processing services, which generally vary from one to three years.

***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 2006, 2005 or 2004.

**Investments** Our investments, at December 31, 2006, consisted principally of certificates of deposit, auction rate securities, money market funds, asset back securities and U.S. Treasury Notes. 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. Once realized, the gains and losses and declines in value determined to be other-than-temporary are recorded. A decline in value is deemed to be other-than-temporary if we do not have the intent and ability to retain the investment until any anticipated recovery in market value, the extent and length of the time to which the market value has been less than cost and the financial condition and near-term prospects of the investment.

**Sale of Subsidiary Stock** Our WHC subsidiary issues their Class A Common Stock in various transactions, which results in a dilution of our percentage ownership in WHC. We account for the sale of WHC Class A Common Stock in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 51 Accounting for Sales of Stock by a Subsidiary. The difference between the carrying amount of our investment in WHC before and after the issuance of WHC Class A Common Stock is considered either a gain or loss and is reflected as a component of our stockholders' equity. During 2006, WHC issued Class A Common Stock for the following transactions, which resulted in our ownership in WHC decreasing to 84.6%, as of December 31, 2006, from 85.8%, as of December 31, 2005:

*Acquisition of Subimo.* During the fourth quarter of 2006, WHC purchased Subimo for cash and agreed to the future issuance of WHC Class A Common Stock (see Introduction Acquisitions above for further details) and, accordingly, we recorded a gain to equity of \$11,627 in connection with the issuance of the non-contingent portion of this WHC Class A Common Stock.

*Other issuances.* During 2006, WHC stock options were exercised and restricted stock awards were released in accordance with WHC's 2005 Long-Term Incentive Plan and WHC issued WHC Class A Common Stock to its Board of Directors as payment for their services. The issuance of these shares resulted in an aggregate gain of \$5,152. We expect to continue to record gains in the future related to the future issuances of WHC Class A Common Stock in these types of transactions.

**Equity Investment in EBSCo** We account for our equity investment in EBSCo in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (which we refer to as APB 18), which stipulates that the equity method should be used to account for investments whereby an investor has the ability to exercise significant influence over operating and financial policies of an investee, but does not exercise control. APB 18 generally considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. We believe our equity investment in EBSCo meets these criteria. We assess the recoverability of the carrying value of our investment whenever events or changes in circumstances indicate a loss in value that is other than a temporary decline. A decline in value is deemed to be other-than-temporary, but not limited to, if we do not have the intent and ability to retain the investment until any anticipated recovery in carrying amount of the investment, inability of the investment to sustain an earnings capacity which would justify the carrying amount or the current fair value of the investment is less than its carrying amount. The current fair value of our equity investment in EBSCo exceeds

its carrying amount.

***Stock-Based Compensation*** In December 2004, the Financial Accounting Standards Board (which we refer to as FASB) issued Statement of Financial Accounting Standard (which we refer to as

SFAS) No. 123, (Revised 2004): Share-Based Payment (which we refer to as SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, (which we refer to as 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 as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. We adopted SFAS 123R on January 1, 2006, and elected to use the modified prospective transition method and as a result, prior period results were not restated. Under the modified prospective method, awards that were granted or modified on or after January 1, 2006, are measured and accounted for in accordance with SFAS 123R. Unvested stock options and restricted stock awards that were granted prior to January 1, 2006, will continue to be accounted for in accordance with SFAS 123, using the same grant date fair value and same expense attribution method used under SFAS 123, except that all awards are recognized in the results of operations over the remaining vesting periods. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized for all stock-based compensation beginning January 1, 2006. As of December 31, 2006, approximately \$40,709 and \$46,383 of unrecognized stock-based compensation expense related to unvested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of approximately 1.48 years and 2.04 years, related to the Emdeon and WHC stock-based compensation plans. The total recognition period for the remaining unrecognized stock-based compensation expense for both the Emdeon and WHC stock-based compensation plans is approximately four years; however, the majority of this cost will be recognized over the next two years, in accordance with our vesting provisions.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in this model are expected dividend yield, expected volatility, risk-free interest rate and expected term. The expected volatility for stock options to purchase Emdeon Common Stock is based on implied volatility from traded options of Emdeon Common Stock combined with historical volatility of Emdeon's Common Stock. The expected volatility for stock options to purchase WHC Class A Common Stock is based on implied volatility from traded options of stock of comparable companies combined with historical stock price volatility of comparable companies.

***Deferred Taxes*** Our deferred tax assets are comprised primarily of net operating loss (which we refer to as NOL) carryforwards. At December 31, 2006, we had NOL carryforwards of approximately \$1.2 billion, which expire at varying dates from 2011 through 2026. 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. As of December 31, 2006, a valuation allowance has been provided against all domestic net deferred taxes, except for a deferred tax liability originating from business combinations that resulted in tax-deductible goodwill, as well as a deferred tax liability established in purchase accounting that is not expected to reverse prior to the expiration of our net operating losses. The valuation allowance was established because of the uncertainty of realization of the deferred tax assets due to lack of sufficient history of generating taxable income. Realization is dependent upon generating sufficient taxable income prior to the expiration of the NOL carryforwards in future periods. Although realization is not currently assured, management evaluates the need for a valuation allowance each quarter, and in the future, should management determine that realization of net deferred tax assets is more likely than not, some or all of the valuation allowance will be reversed, and our effective tax rate may be reduced as a result of such reversal. The valuation allowance also excludes the impact of any deferred items related to certain of our foreign operations as the realization of the deferred items for these operations is likely.

***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 applications of various 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):

	Years Ended December 31,					
	2006		2005		2004	
	(Restated)		(Restated)		(Restated)	
	\$	%	\$	%	\$	%
Revenue	\$ 1,098,608	100.0	\$ 1,026,475	100.0	\$ 918,097	100.0
Costs and expenses:						
Cost of operations	623,758	56.8	595,654	58.0	536,289	58.4
Development and engineering	33,649	3.1	35,653	3.5	33,141	3.6
Sales, marketing, general and administrative	288,015	26.2	254,887	24.9	244,516	26.6
Depreciation and amortization	61,976	5.6	60,905	5.9	48,707	5.3
Legal expense	2,578	0.2	17,835	1.7	9,230	1.0
Gain on sale of EBS	352,297	32.1				
Loss (gain) on investments			6,365	0.6	(457)	
Interest income	32,339	2.9	21,527	2.1	18,716	2.0
Interest expense	18,779	1.7	16,322	1.6	19,251	2.1
Other expense, net	1,674	0.2	3,765	0.4	4,535	0.5
Income from continuing operations before income tax provision	452,815	41.2	56,616	5.5	41,601	4.5
Income tax provision	52,316	4.8	3,295	0.3	6,946	0.7
Minority interest in WHC	405	0.0	775	0.1		
Equity in earnings of EBS Master LLC	763	0.1				
Income from continuing operations	400,857	36.5	52,546	5.1	34,655	3.8
Income from discontinued operations, net of tax	371,060	33.8	16,265	1.6	1,956	0.2
Net income	\$ 771,917	70.3	\$ 68,811	6.7	\$ 36,611	4.0

Revenue is currently derived from our three business segments: WebMD, ViPS and Porex, and was derived through our EBS segment through the date of the EBS Sale on November 16, 2006. WebMD services include: advertising, sponsorship, CME, content syndication and distribution; and licenses of private online portals to employers, healthcare payers and others. In addition, WebMD derives revenue from sales of, and advertising in, its physician directories, subscriptions to its professional medical reference textbooks, and advertisements in *WebMD the Magazine*. As a result of the acquisition of the assets of Conceptis, WebMD also generates revenue from in-person CME programs. ViPS provides healthcare data management, analytics, decision-support and process automation

solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers and performs software maintenance and consulting services for governmental agencies involved in healthcare. 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 finished products used in the medical device and surgical markets. EBS, which was a segment through November 16, 2006 (the date of the EBS Sale) provided solutions that automate key business and administrative functions for healthcare payers and providers, including: electronic patient eligibility and benefit verification; electronic and paper claims processing; electronic and paper paid-claims communication services; and patient billing, payment and communications services. EBS also provided clinical communications services that enable physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. A significant portion of EBS revenue was generated from the country's largest national and regional healthcare payers.

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, including non-cash stock-based compensation 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, a portion of facilities expenses, leased facilities and personnel costs and sales commissions paid to certain distributors of the EBS products and non-cash expenses related to prepaid advertising costs. 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 expenses consist primarily of salaries and related expenses, including non-cash stock-based compensation 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 expenses consist primarily of advertising, product and brand promotion, salaries and related expenses, including non-cash stock-based compensation 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.

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.

Gain on sale of EBS consists of the gain recognized, including professional fees and other expenses incurred, in association with the EBS Sale.

Equity in earnings of EBS Master LLC consists of our portion of the earnings from our 48% ownership in EBSCo.

Discontinued operations consist of the historical operations of EPS, net of tax, and the gain recognized from the EPS Sale, net of tax.

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 stock-based compensation expense.* Expense for 2006 reflects the adoption of SFAS 123R on January 1, 2006, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. Expense for 2005 and 2004 primarily related to restricted stock awards and stock option modifications, as well as the amortization of deferred compensation related to certain acquisitions in 2000. The following table summarizes the non-cash stock-based compensation expense included in cost of operations, development and engineering, and sales, marketing, general and administrative expense in 2006, 2005 and 2004:

**Years Ended December 31,**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Stock-based compensation expense included in:			
Cost of operations	\$ 11,280	\$	\$
Development and engineering	993		
Sales, marketing, general and administrative	32,682	4,880	7,860
Total	\$ 44,955	\$ 4,880	\$ 7,860



*Non-cash advertising expense.* Expense related to the use of WHC's prepaid advertising inventory that WHC received from News Corporation in exchange for equity instruments Emdeon issued in connection with an agreement Emdeon entered into with News Corporation in 1999 and subsequently amended in 2000. This non-cash advertising expense is included in cost of operations when we utilize this advertising inventory in conjunction with offline advertising and sponsorship programs and is included in sales, marketing, general and administrative expense when WHC uses the asset for promotion of WHC's brand or the brand of one of Emdeon's other subsidiaries.

*Non-cash distribution expense.* Expense related to the amortization of a warrant that Emdeon issued to AOL as part of a strategic alliance Emdeon entered into with Time Warner in May 2001 under which WebMD 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. Non-cash distribution expense is reflected in sales, marketing, general and administrative expense within the accompanying consolidated statements of operations.

### ***Modification to the Classification of Results***

The following discussion of our operating results reflects the reclassification of EPS as a discontinued operation in the current year and prior year periods, as a result of the EPS Sale that was completed on September 14, 2006. In addition, our operating results reflect an increase in revenue and an offsetting increase to expenses, primarily within cost of operations, of \$39,387, \$53,771 and \$53,861 for the years ended December 31, 2006, 2005 and 2004, respectively, related to the intercompany activity between EPS and our other operating segments, primarily EBS through September 14, 2006, the date the EPS Sale was completed. This intercompany activity was primarily comprised of print-and-mail services (including postage) and electronic data interchange (which we refer to as EDI) services provided by EBS to the EPS customer base and related rebates paid by EBS to EPS related to EPS's submission of EDI transactions. These amounts had previously been eliminated in consolidation prior to EPS being reflected as a discontinued operation.

In contrast to the EPS Sale, the EBS Sale did not result in the accounting for EBS as a discontinued operation, because the EBS Sale was only a partial sale, through which we retained a 48% ownership interest in EBSCo following the transaction. Accordingly, the historical results of operations for EBS are included in our financial statements for all historical periods, through the date of the EBS Sale on November 16, 2006. Subsequent to the EBS Sale, our 48% portion of EBSCo's income is reflected in the line item Equity in earnings of EBS Master LLC. Because of this treatment, our consolidated results of operations for 2006 and 2005, as well as the EBS segment results for these periods, are presented on a basis that makes prior period results not directly comparable to results for the full year of 2006. In our discussion of those results, we will highlight certain underlying trends that may not be apparent based on comparisons of those results with corresponding prior periods. In the discussion below, references to taking into account the EBS Exclusion Period or the impact of the EBS Exclusion Period mean that, in making qualitative comparisons with prior periods in order to highlight significant trends, the results of EBS are excluded in 2006 for the period from November 17, 2006 (the date of the EBS Sale) through December 31, 2006. Our WebMD, ViPS and Porex segment results were not affected by the EBS Sale and comparisons with prior periods are not subject to the considerations applicable to EBS and to our consolidated results.

### ***2006 and 2005***

The following discussion is a comparison of our results of operations for the year ended December 31, 2006, to the year ended December 31, 2005.

*Revenue*

Our total revenue increased 7.0% to \$1,098,608 in 2006 from \$1,026,475 in 2005. The WebMD, ViPS and Porex segments accounted for \$85,643, \$8,561 and \$6,578, respectively, of the increase. The increase was

partially offset by a decrease in revenue of \$28,215 from our EBS segment, which is the result of the impact of the EBS Exclusion Period.

Acquisitions completed during 2006 and 2005 in our WebMD segment contributed approximately \$30,000 to the overall increase in revenue for 2006. Also contributing to the increase in revenue in 2006 was higher advertising and sponsorship revenue from WebMD's public portals and an increase in the number of companies using WebMD's private portal platform. In addition, excluding the impact of the EBS Sale, revenue increased in our Emdeon Business Services segment, primarily as a result of growth in our patient billing and remittance and payment services and an increase in postage rates that went into effect on January 8, 2006.

#### *Costs and Expenses*

*Cost of Operations.* Cost of operations was \$623,758 in 2006, compared to \$595,654 in 2005. Our cost of operations represented 56.8% of revenue in 2006, compared to 58.0% of revenue in 2005. Included in cost of operations are non-cash stock-based compensation expenses of \$11,280 for the year ended December 31, 2006, with no corresponding amount in the prior year period, as a result of the adoption of SFAS 123R.

Cost of operations, excluding the non-cash stock-based compensation expense, was \$612,478 or 55.8% of revenue for the year ended December 31, 2006. This increase, in absolute dollars, was primarily due to higher compensation expenses as a result of higher staffing levels and outside personnel expenses related to WebMD's Web site operation and development, increased expenses associated with creating and licensing WebMD content, increased production costs related to the timing of *WebMD the Magazine* which shipped larger issues in 2006, compared to 2005, the impact on EBS' cost of operations of the postal rate increase that went into effect on January 8, 2006 and increased expenses related to the delivery of our consulting services within our ViPS operations. These items were partially offset by lower cost of operations in our EBS segment primarily as a result of the impact of the EBS Exclusion Period, and also as a result of lower direct expenses in our EBS segment during 2006, when compared to 2005, through operating efficiencies and cost savings.

The decrease in cost of operations as a percentage of revenue, was primarily the result of the increased revenue discussed above, without a proportionate increase in cost of operations, as well as the impact of the EBS Exclusion Period, as EBS products have lower gross margins. Additionally, we encountered lower direct expenses in our EBS segment during 2006, when compared to 2005, through operating efficiencies and cost savings. These operating efficiencies and cost savings included lower direct expenses in the areas of telecommunication charges and paper and other direct material costs, as well as lower personnel related costs. Partially offsetting this improvement was the impact of the postal rate increase which had a negative effect on cost of operations when reflected as a percentage of revenue.

*Development and Engineering.* Development and engineering expense was \$33,649 in 2006, compared to \$35,653 in 2005. Our development and engineering expense represented 3.1% of revenue in 2006, compared to 3.5% of revenue in 2005. The primary decrease in development and engineering expense, in absolute dollars, was the result of the EBS Exclusion Period. Offsetting this decrease in development and engineering expense was an increase related to non-cash stock-based compensation of \$993 related to the adoption of SFAS 123R and to WebMD's 2006 and 2005 Acquisitions, which due to the timing of these acquisitions, were partially included or not included in our results during 2005.

*Sales, Marketing, General and Administrative.* Sales, marketing, general and administrative expense was \$288,015 in 2006, compared to \$254,887 in 2005. Our sales, marketing, general and administrative expense represented 26.2% of revenue in 2006, compared to 24.9% of revenue in 2005. Included in sales, marketing, general and administrative expense were non-cash expenses related to stock-based compensation and advertising services. Non-cash stock-based

compensation was \$32,682 in 2006, compared to \$4,880 in 2005, reflecting the adoption of SFAS 123R on January 1, 2006. Non-cash expenses related to advertising and distribution services were \$7,414 in 2006, compared to \$10,534 in 2005. The decrease in non-cash advertising expense for 2006 was due to lower utilization of our prepaid advertising inventory.

Sales, marketing, general and administrative expense excluding the non-cash expenses discussed above was \$247,919, or 22.6% of revenue in 2006, compared to \$239,473, or 23.3% of revenue in 2005. The

decrease in sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, as a percentage of revenue, was due to our ability to achieve an increase in revenue without incurring a proportionate increase in expenses. We expect that the decrease in these expenses from 2005 to 2006, as a percentage of revenue, would have been greater if not for the impact of the EBS Exclusion Period. This is due to the fact that sales, marketing, general and administrative expenses of EBS represented a lower percentage of revenue than our remaining business.

The increase in absolute dollars in 2006, compared to 2005, was primarily due to increased compensation related costs due to higher staffing levels and higher sales commission expenses related to our WebMD segment, which were directly attributable to the increased revenue, as well as increased expenses related to recent acquisitions that were not included, or only partially included a year ago. In contrast, these higher costs at WebMD were partially offset by lower costs in 2006 for EBS related to the impact of the EBS Exclusion Period.

*Depreciation and Amortization.* Depreciation and amortization expense was \$61,976 in 2006, compared to \$60,905 in 2005, which represented 5.6% and 5.9% of revenue in 2006 and 2005, respectively. The increase in absolute dollars was primarily due to depreciation and amortization expense relating to the 2006 Acquisitions and 2005 Acquisitions in our WebMD segment. Additionally, depreciation expense increased during 2006, compared to 2005, as a result of increased capital expenditures throughout 2005 and 2006, primarily within our WebMD segment. This increase was partially offset by a decrease in depreciation and amortization expense as a result of the EBS Sale. The EBS business was deemed to be an asset held for sale on September 26, 2006 in connection with the signing of a definitive agreement for the partial sale of that business, and accordingly, no depreciation or amortization expense was recorded for the EBS business during the fourth quarter of 2006.

*Legal Expense.* Legal expense was \$2,578 in 2006, compared to \$17,835 in 2005. Legal expense represents the external costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC. While we cannot predict these costs and expenses with certainty and while they may continue to be significant, we expect these costs to continue to be lower in 2007, as compared to 2005, in part because existing insurance policies became available in December 2005 to cover the expenses of certain former officers and employees. In connection with the EPS Sale, we have agreed to indemnify Sage Software with respect to this matter.

*Gain on Sale of EBS.* The gain on sale of EBS represents a gain of \$352,297, recognized in connection with the sale of a 52% interest in EBS, for cash proceeds of approximately \$1,209,000. See Introduction Significant Transactions Completed During 2006 .

*Loss (Gain) on Investments.* No gains or losses on investments were incurred during 2006. The loss on investments during 2005 was primarily related to a loss of \$4,251 on marketable securities that we identified as securities to be liquidated in connection with the redemption of our 3 1/4% Convertible Subordinated Notes due 2007 (which we refer to as 3 1/4% Notes), as well as a loss of \$2,723 related to the sale of marketable securities, the proceeds of which were used to purchase Emdeon Common Stock under the tender offer we completed on December 21, 2005 (which we refer to as 2005 Tender Offer).

*Interest Income.* Interest income increased to \$32,339 in 2006, from \$21,527 in 2005. The increase was mainly due to higher rates of return in 2006, compared to 2005. Also contributing to the increase in interest income were higher investment balances, particularly during the fourth quarter of 2006, as a result of the proceeds received in connection with the EPS Sale on September 14, 2006 and the EBS Sale on November 16, 2006, partially offset by the \$1.55 billion used in connection with the 2006 Tender Offer that was completed on December 4, 2006.

*Interest Expense.* Interest expense increased to \$18,779 in 2006, from \$16,322 in 2005, primarily due to higher weighted average debt outstanding during 2006, compared to 2005.

*Other Expense, Net.* Other expense, net was \$1,674 and \$3,765 in 2006 and 2005, respectively. Other expense, net in 2006 includes advisory expenses of \$4,198 for professional fees, primarily consisting of legal, accounting and financial advisory services related to our exploration of strategic alternatives for our EBS

business, from the time we initiated this exploration, through the date we signed the definitive agreement for the EBS Sale on September 26, 2006. Also included in other expense, net was transition services income of \$2,524 earned from the service fee charged to EBSCo and Sage Software for services rendered under each of their respective transition services agreement. Other expense, net for 2005 of \$3,765 represents a charge of \$1,863 related to the settlement of litigation in 2005 and a loss of \$1,902 related to the redemption of the 3 1/4% Notes on June 2, 2005.

*Income Tax Provision.* The income tax provision of \$52,316 and \$3,295 in 2006 and 2005, respectively, includes tax expense for operations that were profitable in certain foreign, state and other jurisdictions in which we do not have net operating losses to offset that income. The income tax provision includes a non-cash provision for taxes of \$30,770 and \$174 in 2006 and 2005, respectively, that has not been reduced by the reversal of the valuation allowance as these tax benefits were acquired through business combinations and therefore the related valuation allowance was reversed through goodwill. Additionally, included in the income tax provision in 2006 and 2005 is a deferred tax benefit of \$3,877 and expense of \$4,296, respectively, primarily related to a certain portion of our goodwill that is deductible for tax purposes. The income tax provision in 2006 was considerably higher than in prior periods, as a result of the gain we recorded in connection with the EBS Sale. In 2005, the tax expense was partially offset by the reversal of reserves for tax contingencies resulting from the completion of an IRS Joint Committee review and, to a lesser extent, the expiration of various statutes.

*Minority Interest in WHC.* Minority interest of \$405 and \$775 in 2006 and 2005, respectively, represents the minority stockholders' proportionate share of income for the consolidated WebMD segment. The ownership interest of minority shareholders was created as part of our initial public offering of the WebMD segment on September 28, 2005 and fluctuates based on the net income or loss reported by WHC, combined with changes in the percentage ownership of WHC held by the minority interest shareholders.

*Income from Discontinued Operations, Net of Tax.* Income from discontinued operations, net of tax represents EPS's net operating results of \$17,902 during the period from January 1, 2006 through the date of sale on September 14, 2006 and \$16,265 for the year ended December 31, 2005, as well as a gain of \$353,158, net of tax, recognized in 2006 in connection with the completed EPS Sale.

## ***2005 and 2004***

The following discussion is a comparison of the results of operations for the year ended December 31, 2005, to the year ended December 31, 2004.

### *Revenue*

Our total revenue increased 11.8% to \$1,026,475 in 2005 from \$918,097 in 2004. The ViPS, WebMD, EBS and Porex segments accounted for \$65,620, \$33,921, \$7,205 and \$2,025, respectively, of the revenue increase.

Revenue from customers acquired through the 2005 Acquisitions and 2004 Acquisitions contributed \$69,689 to the overall increase in revenue for 2005, of which \$52,231 related to the ViPS acquisition in August 2004. Excluding revenue from the 2005 Acquisitions and 2004 Acquisitions, the remaining increase in revenue was primarily related to increased revenue in the WebMD segment from advertising and sponsorship revenue related to WebMD's public portals and licensing revenue from WebMD's private online portals. In addition, revenue increased in the EBS segment as a result of increased sales of our paid-claims communication services and our patient statement services. Also contributing to our revenue growth, were increased sales of our consulting services for governmental agency customers in the ViPS segment. Partially offsetting these increases in revenue was lower revenue for traditional medical services in EBS.

*Costs and Expenses*

*Cost of Operations.* Cost of operations was \$595,654 in 2005, compared to \$536,289 in 2004. Our cost of operations represented 58.0% of revenue in 2005, compared to 58.4% of revenue in 2004. Favorably impacting cost of operations as a percentage of revenue for 2005, as compared to 2004, was lower sales



commissions paid to our channel partners and lower data communication expenses in EBS. Partially offsetting these lower costs were increased compensation related costs in the WebMD segment due to increased headcount for information technology relating to WebMD's Web site operations. Additionally, product mix impacted cost of operations as a percentage of revenue as the loss of \$11,000 of News Corporation content syndication revenues, which had no corresponding incremental expenses, were replaced with revenues that have higher cost of operations, such as our ViPS government consulting services and *WebMD the Magazine*. Included in cost of operations were non-cash expenses related to advertising services of \$336 and \$901 for 2005 and 2004, respectively.

*Development and Engineering.* Development and engineering expense was \$35,653 in 2005, compared to \$33,141 in 2004. Our development and engineering expense represented 3.5% of revenue in 2005, compared to 3.6% of revenue in 2004. The primary increase in development and engineering expense, in absolute dollars, was related to the development and engineering expense of the ViPS, HealthShare and MedicineNet product lines which, due to timing of these acquisitions, were partially included or not included in our results during 2004.

*Sales, Marketing, General and Administrative.* Sales, marketing, general and administrative expense was \$254,887 in 2005, compared to \$244,516 in 2004. Our sales, marketing, general and administrative expense represented 24.9% of revenue in 2005, compared to 26.6% of revenue in 2004. Included in sales, marketing, general and administrative expense were non-cash expenses related to advertising services, distribution services and stock-based compensation. Non-cash expenses related to advertising and distribution services were \$10,534 in 2005, compared to \$17,925 in 2004. The decrease in non-cash advertising and distribution expense for 2005 was due to lower utilization of our prepaid advertising inventory, as well as a decline in the expense related to our distribution agreement with AOL, which became fully amortized in May 2004. Non-cash stock-based compensation was \$4,880 in 2005, compared to \$7,860 in 2004. The decrease in non-cash stock-based compensation was primarily related to the vesting schedules of options issued and assumed in connection with business combinations and the restricted stock issued to certain employees in 2004.

Sales, marketing, general and administrative expense excluding the non-cash expenses discussed above, was \$239,473, or 23.3% of revenue in 2005, compared to \$218,731, or 23.8% of revenue in 2004. The increase in sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, in absolute dollars was primarily due to increases in compensation-related costs related to increased staffing and sales commissions associated with the growth of our revenue, as well as higher general and administrative expense related to recent acquisitions we have made. Additionally, sales, marketing, general and administrative expenses during 2005 include severance and other expenses associated with the resignation or termination of several executive positions, and recruiting costs related to new executive positions, principally within the WebMD segment. Offsetting these increased expenses during 2005 was the reduction of professional service costs related to our implementation efforts with respect to the HIPAA Transaction Standards, which were substantially completed during the fourth quarter of 2004. Although our sales, marketing, general and administrative expense has increased in absolute dollars during 2005, the decrease in this expense as a percentage of revenue was primarily due to our ability to achieve an increase in revenue without incurring a proportionate increase in expenses, with the exception of certain increased staffing and additional sales commissions, which were directly attributable to the increased revenue. Additionally, the full year inclusion of the ViPS operations in 2005, contributed to the decrease in sales, marketing, general and administrative expenses as a percentage of revenue, as the ViPS operations have lower administrative expenses than some of our other operations.

*Depreciation and Amortization.* Depreciation and amortization expense was \$60,905 in 2005, compared to \$48,707 in 2004, which represented 5.9% and 5.3% of revenue in 2005 and 2004, respectively. The increase was primarily due to approximately \$12,000 of additional amortization expense relating to the 2005 Acquisitions and 2004 Acquisitions. Additionally, depreciation expense increased during 2005, compared to 2004, as a result of increased capital expenditures made throughout our company during 2005 and the later part of 2004. These increases were slightly offset by a decrease of approximately \$3,100 in amortization expense as a result of the intangible asset for Medifax's

trade name becoming fully amortized in December 2004.

*Legal Expense.* Legal expense was \$17,835 in 2005, compared to \$9,230 in 2004. Legal expense represents the external costs and expenses incurred related to the investigation by the United States Attorney for the District of South Carolina and the SEC. While we cannot predict these costs and expenses with certainty and while they may continue to be significant, we expect these costs to continue to be lower in 2007, as compared to 2005, in part because existing insurance policies became available in December 2005 to cover the expenses of certain former officers and employees. In connection with the EPS Sale, we have agreed to indemnify Sage Software with respect to this matter.

*Loss (Gain) on Investments.* Loss (gain) on investments represented a loss of \$6,365 for 2005 and a gain of \$457 for 2004. The loss on investments during 2005 was primarily related to a loss of \$4,251 on marketable securities that we identified as securities to be liquidated in connection with the redemption of our 31/4% Notes. Also during 2005, we recognized a loss of \$2,723 related to the sale of marketable securities, the proceeds of which were used to purchase Emdeon Common Stock under the 2005 Tender Offer.

*Interest Income.* Interest income increased to \$21,527 in 2005, from \$18,716 in 2004. This increase was mainly due to higher rates of return in 2005, compared to 2004.

*Interest Expense.* Interest expense decreased to \$16,322 in 2005, from \$19,251 in 2004, primarily due to lower weighted average debt outstanding during 2005, compared to 2004.

*Other Expense, Net.* Other expense, net for 2005 and 2004 was \$3,765 and \$4,535, respectively. Other expense, net in 2005 represents a charge of \$1,863 related to the settlement of litigation in 2005 and a loss of \$1,902 related to the redemption of the 31/4% Notes on June 2, 2005. Other expense, net in 2004 of \$4,535 represents an incremental charge taken in connection with the settlement of a lawsuit against the landlord of a property leased in 2000, but never occupied. The remaining cost of the settlement was previously expensed in connection with the restructuring and integration plan that we announced in September 2000.

*Income Tax Provision.* The income tax provision of \$3,295 and \$6,946 in 2005 and 2004, respectively, includes tax expense for operations that were profitable in certain foreign, state and other jurisdictions in which we do not have net operating losses to offset that income. Additionally, included in the income tax provision in 2005 and 2004 is a deferred tax expense of \$4,296 and \$2,723, respectively, primarily related to a certain portion of our goodwill that is deductible for tax purposes. In 2005, this tax expense was partially offset by the reversal of reserves for tax contingencies resulting from the completion of an IRS Joint Committee review and, to a lesser extent, the expiration of various statutes. The 2005 income tax provision also includes a provision for federal taxes that has not been reduced by the reversal of valuation allowance as these tax benefits were acquired through business combinations.

*Minority Interest in WHC.* Minority interest was \$775 in 2005 and represents the minority stockholders' proportionate share of income for the consolidated WebMD segment. The ownership interest of minority shareholders was created as part of our initial public offering of the WebMD segment on September 28, 2005 and fluctuates based on the net income or loss reported by WHC, combined with changes in the percentage ownership of WHC held by the minority interest shareholders.

*Income from Discontinued Operations, Net of Tax.* Income from discontinued operations represents EPS's net operating results of \$16,265 and \$1,956 in 2005 and 2004, respectively. The increase in EPS's operating results was due to increased revenue, as well as changes in the types of revenue we received, which can have varying degrees of profitability. Also contributing to the increase in EPS's operating results were improvements in EPS's delivery and customer service infrastructure.

## **Results of Operations by Operating Segment**

We evaluate the performance of the business based upon earnings before interest, taxes, non-cash and other items. Non-cash and other items include: legal expenses which reflect costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC (which we refer to as Legal expense); professional fees, primarily consisting of legal, accounting and financial advisory services, related to the EBS Sale; a gain on sale of a 52% interest in our EBS segment (which we refer to as Gain on sale of EBS), equity in earnings of EBSCo, which represents Emdeon's 48% portion of EBS's income (which

we refer to as Equity in earnings of EBS Master LLC); charge related to the redemption of the 31/4% Notes; minority interest in our consolidated WebMD segment; non-cash advertising expense related to advertising acquired in exchange for our equity securities; costs and expenses related to the settlement of litigation in 2005; and non-cash stock-based compensation expense, which relates to stock options issued and assumed in connection with acquisitions and restricted stock issued to employees and, beginning January 1, 2006, includes the incremental non-cash stock-based compensation expense associated with the adoption of SFAS 123R.

*Reclassification of Segment Information.* In connection with the EPS Sale and related reclassification of that operating segment to discontinued operations, we have reclassified certain expenses related to activities that were previously managed, and therefore reported, within the Corporate and EBS segments, to the discontinued EPS segment, as these expenses will not be incurred by our continuing operations, and therefore these expenses were reclassified for the current and comparable periods. The expenses which were reclassified to the discontinued EPS segment aggregated \$924, \$1,750 and \$1,837 in 2006, 2005 and 2004, respectively.

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

	<b>Years Ended December 31,</b>		
	<b>2006(a)</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
<b>Revenue</b>			
Emdeon Business Services	\$ 661,090	\$ 689,305	\$ 682,100
WebMD	253,881	168,238	134,317
ViPS	98,874	90,313	24,693
Porex	85,702	79,124	77,099
Inter-segment eliminations	(939)	(505)	(112)
	\$ 1,098,608	\$ 1,026,475	\$ 918,097
<b>Earnings before interest, taxes, non-cash and other items</b>			
Emdeon Business Services	\$ 152,911	\$ 138,529	\$ 128,361
WebMD	53,079	27,546	26,307
ViPS	20,529	16,913	4,277
Porex	24,974	22,524	22,650
Corporate	(43,414)	(49,481)	(50,758)
	208,079	156,031	130,837
<b>Interest, taxes, non-cash and other items</b>			
Depreciation and amortization	(61,976)	(60,905)	(48,707)
Non-cash stock-based compensation	(44,955)	(4,880)	(7,860)
Non-cash advertising and distribution	(7,414)	(10,870)	(18,826)
Legal expense	(2,578)	(17,835)	(9,230)
Interest income	32,339	21,527	18,716
Interest expense	(18,779)	(16,322)	(19,251)
Income tax provision	(52,316)	(3,295)	(6,946)
Minority interest in WHC	(405)	(775)	
Equity in earnings of EBS Master LLC	763		

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Gain on sale of EBS	352,297		
(Loss) gain on investments		(6,365)	457
Other expense	(4,198)	(3,765)	(4,535)
Income from continuing operations	400,857	52,546	34,655
Income from discontinued operations, net of tax	371,060	16,265	1,956
Net income	\$ 771,917	\$ 68,811	\$ 36,611

(a) The EBS segment was sold on November 16, 2006 and, therefore, the operations of the EBS segment are included only for the period January 1, 2006 through November 16, 2006.

## *2006 and 2005*

The following discussion is a comparison of the results of operations for each of our operating segments and corporate segment for the year ended December 31, 2006, to the year ended December 31, 2005.

*Emdeon Business Services.* Revenue was \$661,090 in 2006, a decrease of \$28,215 or 4.1% from 2005. The decrease in revenue was due to the impact of the EBS Exclusion Period. Offsetting the decrease in revenue was growth in our electronic transactions, patient statements and remittance and payment services and an increase in postage revenue which corresponded with the increase in postage rates that went into effect on January 8, 2006.

Earnings before interest, taxes, non-cash and other items was \$152,911 in 2006, compared to \$138,529 in 2005. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 23.1% in 2006, compared to 20.1% in 2005. The increase in operating margin, as a percentage of revenue, was primarily the result of higher revenue as discussed above, without a proportionate increase in costs. This was due to a combination of certain costs that are more fixed in nature and do not increase proportionately with revenue including certain personnel related costs, as well as the result of operating efficiencies and cost savings. The operating efficiencies and costs savings included lower direct expenses in the areas of telecommunication expenses and other direct material costs related to our patient statement and remittance and payment service offerings. The increase in operating margin was slightly offset by the impact of the increased postage rates which went into effect at the beginning of the current year.

*WebMD.* Revenue was \$253,881 in 2006, an increase of \$85,643 or 50.9% from 2005. The increase in revenue was the result of increased advertising and sponsorship revenue related to our public portals and licensing revenue from our private online portals. Excluding the impact of the 2006 Acquisitions and 2005 Acquisitions on revenue, total revenue increased approximately \$55,000, or 32%, from 2005 to 2006.

Earnings before interest, taxes, non-cash and other items was \$53,079 in 2006, compared to \$27,546 in 2005. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 20.9% in 2006, compared to 16.4% in 2005. This increase in operating margin was primarily due to the higher revenue from the increase in number of brands and sponsored programs in our public portals, as well as the increase in companies using our private online portal without incurring a proportionate increase in overall expenses. This increase was partially offset by a charge of approximately \$3,100 during 2005 related to the resignation of WebMD's former CEO and other personnel and recruitment of WebMD's Executive Vice President of Product and Programming and Chief Technology Officer.

*ViPS.* Revenue was \$98,874 in 2006, an increase of \$8,561 or 9.5% from 2005. The increase for 2006 compared to a year ago was due to increased professional consulting services that we provide to governmental agencies, and license revenue and related support and maintenance revenue related to data warehousing and decision-support software.

Earnings before interest, taxes, non-cash and other items was \$20,529 in 2006, compared to \$16,913 in 2005. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 20.8% in 2006, compared to 18.7% in 2005. The increase in operating margin for 2006, as compared to 2005, was primarily due to the changes in the type of revenue we earned (which can have varying degrees of profitability), such as the higher software revenue we earned in the current year periods, which have higher margins than certain types of consulting services, including the consulting services we provide to governmental agencies. The increase was slightly offset by higher facility and personnel cost to support the growth within our ViPS segment.

*Porex.* Revenue was \$85,702 in 2006, an increase of \$6,578 or 8.3% from 2005. The increase in revenue for 2006, was primarily due to increased sales of our foreign industrial products, healthcare and consumer products.





Earnings before interest, taxes, non-cash and other items was \$24,974 in 2006, compared to \$22,524 in 2005. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 29.1% in 2006, compared to 28.5% in 2005. The increase in operating margin was primarily due to the higher revenue, as discussed above, offset by higher personnel costs and higher direct costs relating to the mix of products produced.

*Corporate.* Corporate includes services shared across all operating segments, such as executive personnel, accounting, tax, treasury, legal, human resources, risk management and certain information technology functions. Corporate expenses decreased to \$43,414, or 4.0% of consolidated revenue in 2006, compared to \$49,481, or 4.8% of consolidated revenue in 2005. These expenses, in absolute dollars, decreased as a result of lower personnel related costs due to lower headcount. Additionally, our corporate expenses as a percentage of revenue continue to decrease when compared to the prior periods reflecting our ability to increase revenue without a proportionate increase in corporate costs which are generally more fixed in nature. Additionally, in connection with the transition services we are providing to EPS and EBSCo following the EPS Sale and EBS Sale, we charged EPS and EBSCo transition services fees of \$2,524 during 2006, which is net of certain fees we pay to EBSCo, related to certain services they perform for us. This amount was reflected within our Corporate segment during 2006, partially offsetting the cost of providing these services.

*Inter-Segment Eliminations.* Inter-segment eliminations primarily represents printing services provided by the EBS segment and certain services provided by the WebMD segment to our other operating segments.

#### **2005 and 2004**

The following discussion is a comparison of the results of operations for each of our operating segments and corporate segment for the year ended December 31, 2005, to the year ended December 31, 2004.

*Emdeon Business Services.* Revenue was \$689,305 in 2005, an increase of \$7,205 or 1.1% from 2004. Revenue from customers acquired through the 2004 Acquisitions contributed \$5,578 to the increase in revenue. Excluding revenue from customers acquired through the 2004 Acquisitions, revenue increased as a result of growth in our paid-claims communication services, offset by a decrease in revenue for traditional medical services.

Earnings before interest, taxes, non-cash and other items was \$138,529 in 2005, compared to \$128,361 in 2004. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 20.1% in 2005, compared to 18.8% in 2004. The increase in our operating margin, as a percentage of revenue, was primarily the result of lower sales commissions paid to our channel partners including practice management and hospital information system vendors, 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.

*WebMD.* Revenue was \$168,238 in 2005, an increase of \$33,921 or 25.3% from 2004. The increase in revenue was the result of increased advertising and sponsorship revenue related to our public portals and licensing revenue from our private online portals. Also contributing to the increase in revenue for 2005 was \$7,661 and \$933 related to the acquisitions of HealthShare and Concepts, respectively. Partially offsetting these increases was the loss of revenue from our content syndication agreement with News Corporation, which expired in January 2005. Included in revenue was \$1,000 for 2005, compared to revenue of \$12,000 for 2004, related to the News Corporation agreement.

Earnings before interest, taxes, non-cash and other items was \$27,546 in 2005, compared to \$26,307 in 2004. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 16.4% in 2005, compared to 19.6% in 2004. This decrease in operating margin as a percentage of revenue was primarily due to a charge of approximately \$3,100 during 2005 related to the resignation of WebMD's former CEO and other personnel and the

recruitment of WebMD's Executive Vice President of Product and Programming and Chief Technology Officer. Additionally, WebMD incurred higher information technology and sales and marketing expenses, as well as the decline in revenue due to the expiration of the content syndication agreement with News Corporation referred to above, which had no corresponding incremental expenses.

*ViPS.* Revenue was \$90,313 in 2005, an increase of \$65,620 from 2004. ViPS was purchased on August 11, 2004 and, as such, \$52,231 of the increase in revenue represents revenue from customers acquired. The remaining increase in revenue of \$13,389 represents additional consulting services provided to our governmental agency customers.

Earnings before interest, taxes, non-cash and other items was \$16,913 in 2005, compared to \$4,277 in 2004. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 18.7% in 2005, compared to 17.3% in 2004. The increase in operating margin was due to the higher revenue discussed above without the proportionate increase in cost.

*Porex.* Revenue was \$79,124 in 2005, an increase of \$2,025 or 2.6% from 2004. Revenue from customers acquired through the 2004 Acquisitions contributed \$1,162 to the increase in revenue in 2005. Excluding the 2004 Acquisitions, the increase for 2005 compared to a year ago was the result of increased sales of surgical implant products, writing instrument components and industrial products offset partially by a decrease in sales of consumer and healthcare products.

Earnings before interest, taxes, non-cash and other items was \$22,524 in 2005, compared to \$22,650 in 2004. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 28.5% in 2005, compared to 29.4% in 2004. The decrease in operating margin as a percentage of revenue was due to changes in the types of products sold in 2005 (which can have varying degrees of profitability), as well as higher personnel and professional costs.

*Corporate.* Corporate includes services shared across all operating segments, such as executive personnel, accounting, tax, treasury, legal, human resources, risk management and certain information technology functions. Corporate expenses decreased to \$49,481, or 4.8% of consolidated revenue, in 2005, compared to \$50,758, or 5.5% of consolidated revenue, in 2004. These expenses, in absolute dollars, decreased as a result of lower personnel related costs due to lower headcount and lower professional costs related to our efforts related to Section 404 of the Sarbanes-Oxley Act of 2002. Additionally, our corporate expenses as a percentage of revenue continue to decrease when compared to the prior periods reflecting our ability to increase revenue without a proportionate increase in corporate costs.

*Inter-Segment Eliminations.* Inter-segment eliminations primarily represents printing services provided by the EBS segment and certain services provided by the WebMD segment to our other operating segments.

## **Liquidity and Capital Resources**

We began operations in January 1996 and, until 2004, we had incurred net losses in each year and, as of December 31, 2006, we had an accumulated deficit of approximately \$9.3 billion. We plan to continue to invest in acquisitions, strategic relationships, infrastructure and product development. We do not expect to pay dividends to our stockholders.

### ***Cash Flow***

As of December 31 2006, we had approximately \$648,831 in cash and cash equivalents and short-term investments, including \$54,150 in cash and cash equivalents and short-term investments held by WHC. We invest our excess cash principally in U.S. Treasury obligations, money market funds and other short-term liquid cash investments and expect to do so in the future. As of December 31, 2006, all our marketable securities were classified as available-for-sale. In February 2007, we transferred \$140,000 to WHC as an estimate of the payment required in accordance with the tax sharing agreement between Emdeon and WHC, which requires Emdeon to reimburse WHC for WHC's net operating losses utilized in connection with the gains Emdeon realized in 2006 on the EPS Sale and EBS Sale transactions. The

transfer of the \$140,000 had no impact on our consolidated cash position or liquidity.

Cash provided by operating activities from our continuing operations was \$173,035 in 2006, compared to \$128,856 in 2005. The principal source of the \$44,179 increase in cash provided by operating activities from our continuing operations when compared to a year ago, was higher income from continuing operations, excluding the gain we realized on the EBS Sale and non-cash items such as depreciation, amortization and

stock compensation expenses. Changes in consolidated working capital between 2006 and 2005 had a negligible impact on our cash flow from operations.

Cash provided by investing activities from our continuing operations was \$1,764,551 in 2006, compared to \$183,507 in 2005. Cash provided by investing activities from our continuing operations in 2006 was primarily attributable to \$1,199,872 and \$522,604 of proceeds received from the EBS Sale and EPS Sale, respectively, as well as \$241,469 of net proceeds from maturities and sales of available-for-sale securities. Cash paid in business combinations, net of cash acquired, was \$152,772 in 2006, which primarily related to the acquisitions of Subimo, Medsite, Summex and eMedicine, as well as contingent consideration payments related to our acquisitions of Advanced Business Fulfillment, Inc. (which we refer to as ABF) and MedicineNet. Cash provided by investing activities from our continuing operations in 2005 included net proceeds of \$304,919 from maturities and sales of available-for-sale securities. Cash paid in business combinations, net of cash acquired, was \$93,712 in 2005, which primarily related to the ABF contingent consideration payment and the acquisitions of HealthShare and MedicineNet. Investments in property and equipment were \$54,885 in 2006, compared to \$51,276 in 2005. We anticipate capital expenditure requirements of approximately \$23,000 to \$28,000 in 2007, primarily within our WebMD segment.

Cash used in financing activities was \$1,479,646 in 2006, compared to cash used in financing activities of \$196,049 in 2005. Cash used in financing activities in 2006 principally related to the repurchases of a total of 137.5 million shares of Emdeon Common Stock for \$1,635,287, offset by proceeds from the issuance of Emdeon Common Stock and WHC Class A Common Stock, primarily resulting from exercises of employee stock options, of \$156,078. Cash used in financing activities in 2005 principally related to the repurchase of 69.4 million shares of Emdeon Common Stock for \$570,514 and the redemption of our 31/4% Notes for \$86,694. These uses of cash were offset by net proceeds of \$289,875 from the issuance of our 31/8% Convertible Notes due 2025 (which we refer to as 31/8% Notes) in August 2005, \$123,344 in net proceeds from the issuance of WHC Class A Common Stock in an initial public offering and proceeds of \$48,571 related to the issuance of Emdeon Common Stock, primarily resulting from exercises of employee stock options.

Included in our consolidated statements of cash flows are cash flows from discontinued operations of the EPS segment as a result of the EPS Sale. Our cash flows from discontinued operations are comprised of cash flows provided by operating activities, representing \$25,985, \$32,430 and \$29,991, and cash flows used in investing activities, representing \$26,010, \$34,575 and \$28,536, for 2006, 2005 and 2004, respectively. There were no cash flows from financing activities for the EPS segment.

### ***Contractual Obligations and Commitments***

The following table summarizes our principal commitments as of December 31, 2006 for future specified contractual obligations that are not reflected in our consolidated balance sheets, as well as the estimated timing of the cash payments associated with these obligations. This table also provides the timing of cash payments related to our long-term debt obligations included in our consolidated balance sheets. Management's estimates of the timing of future cash flows are largely based on historical experience, and accordingly, actual timing of cash flows may vary from these estimates.

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 Years</b>
	<b>(In thousands)</b>				
Long-term debt <sup>(a)</sup>	\$ 727,688	\$ 15,500	\$ 31,000	\$ 371,813	\$ 309,375
Leases <sup>(b)</sup>	60,870	11,580	19,311	14,782	15,197
Purchase obligations <sup>(c)</sup>	4,047	4,047			

Other long term liabilities	730	289	441		
Total	\$ 793,335	\$ 31,416	\$ 50,752	\$ 386,595	\$ 324,572

- (a) Long-term debt includes our 3 1/8% Notes, and our 1.75% Convertible Subordinated Notes due 2023, which are first puttable at the option of the holders in 2012 and 2010, respectively. Amounts include our contractual interest payments through the earliest date at which these notes are puttable by the holder.
- (b) The lease amounts are net of sublease income.
- (c) Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity and delivery.

In addition to the commitments discussed above, we have contingent consideration payments of up to \$37,500 related to prior acquisitions we have made if certain milestones are achieved for those businesses.

### ***Off-Balance Sheet Arrangements***

We have no material off-balance sheet arrangements.

### ***Outlook on Future Liquidity***

We expect our operating cash flows to be lower during 2007, as compared to 2006 as a result of the absence of cash flows generated by the EPS segment. In addition to the EPS Sale, we expect the EBS Sale to result in lower operating cash flows for 2007, as compared to 2006. While we still own a 48% interest in EBS through our investment in EBSCo, the profitability of EBSCo will be reduced as a result of the interest expense related to the \$925,000 in debt that EBSCo incurred in connection with the EBS Sale. Further, as a result of a credit agreement between EBSCo and the financial institutions that issued the debt, payment of any cash distributions out of EBSCo will be restricted to certain tax related distributions, which are expected to be minimal, if any, in 2007. Even though we have sold or partially sold two of our significant businesses, we expect our 2007 operating cash flows to be positive by experiencing continued positive operating cash flows in our WebMD, ViPS and Porex segments and by lowering our operating expenses within the Corporate segment.

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 2007 and 2008. 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, cost of maintaining and upgrading the information technology platforms and communications systems that WebMD uses to provide its services, potential future acquisitions and additional repurchases of Emdeon 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. Future indebtedness may impose various restrictions and covenants on us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

### **Recent Accounting Pronouncements**

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (which we refer to as SFAS 159). SFAS 159 permits many financial instruments and certain other items to be measured at fair value at our option. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits the choice to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is





applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for financial statements issued for first fiscal year beginning after November 15, 2007. Early adoption is permitted provided that the choice is made in the first 120 days of that fiscal year and SFAS No. 157, Fair Value Measurements is also adopted. We are currently evaluating the impact, if any, that this new standard will have on our results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (which we refer to as SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that this new standard will have on our results of operations, financial position or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (which we refer to as FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact, if any, that this new standard will have on our results of operations, financial position or cash flows.

## **Item 8. *Financial Statements and Supplementary Data***

### **Financial Statements**

Our financial statements required by this item are contained on pages F-1 through F-65 of this Annual Report on Form 10-K. See Item 15(a)(1) for a listing of financial statements provided.

### **Item 9A. *Controls and Procedures***

In connection with the restatement of our financial results, which is more fully described in the Explanatory Note on page 1 and Note 24, Restatement of Consolidated Financial Statements located in the Notes to Consolidated Financial Statements elsewhere in this Annual Report, under the direction of our Chief Executive Officer and Chief Financial Officer, we reevaluated our disclosure controls and procedures. We identified a material weakness in our internal control over financial reporting with respect to accounting for income taxes relating to the treatment of tax-deductible goodwill and certain intangible assets in the determination of the deferred tax asset valuation allowance.

Solely as a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of December 31, 2006.

As of May 4, 2007, we implemented new procedures, including improved documentation and analysis regarding the reversal pattern of taxable temporary differences between financial and tax reporting. We believe these new procedures enable us to comply with the requirements related to the accounting for deferred tax asset valuation allowances. In so doing, management has remediated the related internal control weakness. In connection with this amended Form 10-K, under the direction of our Chief Executive Officer and Chief Financial Officer, we have evaluated our disclosure controls and procedures as in effect on the date of this amendment, including the remedial actions discussed above, and we have concluded that, as of such date, our disclosure controls and procedures are effective.



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, as defined in Exchange Act Rule 13(a)-15(f), occurred during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, Emdeon's internal control over financial reporting, except for changes in internal controls in connection with: (1) EPS being accounted for as a discontinued operation as a result of the EPS Sale; (2) EBS being accounted for under the equity method as a result of completion of the EBS Sale on November 16, 2006; and (3) the continuing conversion by WHC to a new enterprise resource planning system (including new accounting software). During the fourth quarter of 2006, WHC continued the implementation of a new third-party enterprise resource planning system which it began to implement earlier in 2006. As a result, certain business processes and accounting procedures of our WebMD segment have changed. These changes were made in accordance with WHC's plan to implement separate systems from those of Emdeon and not in response to any identified deficiency or weakness in WHC's or Emdeon's internal control over financial reporting.

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

**(a)(1)-(2) Financial Statements and Schedules**

The financial statements and schedules listed in the accompanying Index to Consolidated Financial Statements and Supplemental Data on page F-1 are filed as part of this Report.

**(a)(3) Exhibits**

See Index to Exhibits beginning on page E-1, which is incorporated by reference herein. The Index to Exhibits lists all exhibits filed with this Report and identifies which of those exhibits are management contracts and compensation plans.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 10th day of May, 2007.

**EMDEON CORPORATION**

Mark D. Funston  
*Executive Vice President and  
Chief Financial Officer*

By: /s/ Mark D. Funston

**Emdeon Corporation**  
**Index to Consolidated Financial Statements and Supplemental Data**

The following financial statements of the Company and its subsidiaries required to be included in Item 15(a)(1) of Form 10-K are listed below:

	<b>Page</b>
<b>Historical Financial Statements:</b>	
<u>Report of Management on Internal Control Over Financial Reporting (Restated)</u>	F-2
<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u>	F-3
<u>Report of Independent Registered Public Accounting Firm</u>	F-5
<u>Consolidated Balance Sheets at December 31, 2006 and 2005 (Restated)</u>	F-6
<u>Consolidated Statements of Operations for the Years Ended December 31, 2006, 2005 and 2004 (Restated)</u>	F-7
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2006, 2005 and 2004 (Restated)</u>	F-8
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004 (Restated)</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-11

**Supplemental Financial Data:**

The following supplementary financial data of the Registrant and its subsidiaries required to be included in Item 15(a)(2) of Form 10-K are listed below:

Schedule II Valuation and Qualifying Accounts	S-1
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All other schedules not listed above have been omitted as not applicable or because the required information is included in the Consolidated Financial Statements or in the notes thereto. Columns omitted from the schedule filed have been omitted because the information is not applicable.

**REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
(RESTATED)**

The management of Emdeon Corporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2006, based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 1, 2007, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2006. Subsequently, management identified a material weakness in the Company's internal control over financial reporting with respect to accounting for income taxes relating to the treatment of tax-deductible goodwill and certain intangible assets in the determination of the deferred tax asset valuation allowance.

This material weakness resulted in this amendment to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, in order to restate the financial statements for the years ended December 31, 2006, 2005 and 2004 and to restate financial information for the years ended December 31, 2003 and 2002.

Solely as a result of this material weakness, the Company's management has revised its earlier assessment and has now concluded that the Company's internal control over financial reporting was not effective as of December 31, 2006.

The audited consolidated financial statements of the Company included in this Annual Report on Form 10-K (the Financial Statement) include: the results of Summex Corporation (Summex) from June 13, 2006, the date of its acquisition by the Company; the results of businesses acquired from Medsite, Inc. (Medsite) from September 11, 2006, the date of the Company's acquisitions of those assets and assumption of related liabilities; and the results of Subimo, LLC (Subimo) from December 15, 2006, the date of its acquisition by the Company. Those acquisitions are described in Note 5 of the Financial Statements under the caption 2006 Acquisitions. However, the Company management's assessment of internal control over financial reporting of the Company does not include an assessment of internal control over financial reporting of Summex, Medsite or Subimo, which together constituted 10.3% of the Company's total assets as of December 31, 2006 and 0.8% of the Company's revenue for the year then ended.

The Company's independent auditor, Ernst & Young LLP, a registered public accounting firm, has issued an audit report on the Company's revised management's assessment on its internal control over financial reporting as of December 31, 2006. That report appears on page F-3.

As of May 4, 2007, the Company implemented new procedures, including improved documentation and analysis regarding the reversal pattern of temporary differences between financial and tax reporting. The Company's management believes these new procedures enable the Company to comply with the requirements related to the accounting for deferred tax asset valuation allowances. Management believes that these new procedures have remediated the internal control weakness.

May 9, 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Stockholders of  
Emdeon Corporation

We have audited management's assessment, included in the accompanying Report of Management (as restated) on Internal Control Over Financial Reporting, that Emdeon Corporation did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of Emdeon Corporation's material weakness relating to its internal controls over the accounting for income taxes, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Emdeon Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Report of Management on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Summex Corporation, Medsite, Inc. and Subimo, LLC, which are included in the 2006 consolidated financial statements of Emdeon Corporation from the date of their acquisitions on June 13, 2006, September 11, 2006 and December 15, 2006, respectively, and together constituted 10.3% of total assets as of December 31, 2006 and 0.8% of revenue for the year then ended. Our audit of internal control over financial reporting of Emdeon Corporation also did not include an evaluation of the internal control over financial reporting of Summex Corporation, Medsite, Inc. and Subimo, LLC.



In our report dated March 1, 2007, we expressed an unqualified opinion on management's previous assessment that Emdeon Corporation maintained effective internal control over financial reporting as of December 31, 2006 and an unqualified opinion that Emdeon Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based upon the COSO criteria. Management has subsequently determined that a deficiency in controls relating to the accounting for income taxes existed as of the previous assessment date, and has further concluded that such deficiency represented a material weakness as of December 31, 2006. As a result, management revised its assessment, as presented in

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the accompanying Report of Management on Internal Control Over Financial Reporting (as restated), to conclude that Emdeon Corporation's internal control over financial reporting was not effective as of December 31, 2006.

Accordingly, our present opinion on the effectiveness of Emdeon Corporation's internal control over financial reporting as of December 31, 2006, as expressed herein, is different from that expressed in our previous report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. Emdeon Corporation identified a material weakness related to its internal control over the accounting for income taxes relating to the treatment of tax-deductible goodwill and certain intangible assets in the determination of the deferred tax asset valuation allowance.

The material weakness resulted in the restatement of Emdeon Corporation's consolidated financial statements as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements and this report does not affect our report dated March 1, 2007, except for Note 24, as to which the date is May 9, 2007, on those consolidated financial statements (as restated).

In our opinion, management's assessment that Emdeon Corporation did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Emdeon Corporation has not maintained effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statement referring to the remediation of the material weakness.

/s/ Ernst & Young LLP

MetroPark, New Jersey  
March 1, 2007, except for the  
effects of the material weakness  
described in the seventh paragraph  
of this report, as to which the date is May 9, 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of  
Emdeon Corporation

We have audited the accompanying consolidated balance sheets of Emdeon Corporation as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Emdeon Corporation at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 24 to the consolidated financial statements, the accompanying consolidated financial statements and related financial statement schedule have been restated to correct the Company's accounting for the valuation allowance related to deferred tax assets.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), "Share-Based Payment" using the modified prospective transition method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Emdeon Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007, except for the effects of the material weakness described in the seventh paragraph of that report as to which the date is May 9, 2007, expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

MetroPark, New Jersey  
March 1, 2007 except for  
Note 24 as to which the date is  
May 9, 2007



**EMDEON CORPORATION**

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

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated)</b>	<b>(Restated)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 614,691	\$ 155,616
Short-term investments	34,140	267,387
Accounts receivable, net of allowance for doubtful accounts of \$1,296 at December 31, 2006 and \$6,909 at December 31, 2005	121,608	195,317
Inventory	9,922	10,791
Due from EBS Master LLC	30,716	
Prepaid expenses and other current assets	31,871	30,936
Assets of discontinued operations		254,247
Total current assets	842,948	914,294
Marketable equity securities	2,633	4,430
Property and equipment, net	72,040	95,686
Goodwill	337,669	895,975
Intangible assets, net	129,473	235,271
Investment in EBS Master LLC	1,521	
Other assets	65,659	50,027
<b>TOTAL ASSETS</b>	<b>\$ 1,451,943</b>	<b>\$ 2,195,683</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,996	\$ 7,739
Accrued expenses	113,175	170,102
Deferred revenue	87,438	68,390
Liabilities of discontinued operations		68,436
Total current liabilities	204,609	314,667
1.75% convertible subordinated notes due 2023	350,000	350,000
31/8% convertible notes due 2025	300,000	300,000
Other long-term liabilities	24,179	28,154
Minority interest in WebMD Health Corp. (WHC)	101,860	43,096
Convertible redeemable exchangeable preferred stock, \$0.0001 par value; 10,000 shares authorized, issued and outstanding at December 31, 2006 and December 31, 2005	98,768	98,533
Commitments and contingencies		
Stockholders' equity:		

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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; 449,600,747 shares issued at December 31, 2006; 428,624,239 shares issued at December 31, 2005	45	43
Additional paid-in capital	12,290,126	12,121,431
Deferred stock compensation		(3,699)
Treasury stock, at cost; 287,770,823 shares at December 31, 2006; 150,296,414 shares at December 31, 2005	(2,585,769)	(950,482)
Accumulated deficit	(9,341,985)	(10,113,667)
Accumulated other comprehensive income	10,110	7,607
 Total stockholders' equity	 372,527	 1,061,233
 <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	 <b>\$ 1,451,943</b>	 <b>\$ 2,195,683</b>

See accompanying notes.

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## EMDEON CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years Ended December 31,		
	2006	2005	2004
	(Restated)	(Restated)	(Restated)
Revenue:			
Services	\$ 998,252	\$ 932,273	\$ 825,405
Products	100,356	94,202	92,692
Total revenue	1,098,608	1,026,475	918,097
Cost of operations:			
Services	581,108	555,208	497,644
Products	42,650	40,446	38,645
Total cost of operations	623,758	595,654	536,289
Development and engineering	33,649	35,653	33,141
Sales, marketing, general and administrative	288,015	254,887	244,516
Depreciation and amortization	61,976	60,905	48,707
Legal expense	2,578	17,835	9,230
Gain on sale of EBS	352,297		
Loss (gain) on investments		6,365	(457)
Interest income	32,339	21,527	18,716
Interest expense	18,779	16,322	19,251
Other expense, net	1,674	3,765	4,535
Income from continuing operations before income tax provision	452,815	56,616	41,601
Income tax provision	52,316	3,295	6,946
Minority interest in WHC	405	775	
Equity in earnings of EBS Master LLC	763		
Income from continuing operations	400,857	52,546	34,655
Income from discontinued operations, net of tax	371,060	16,265	1,956
Net income	\$ 771,917	\$ 68,811	\$ 36,611
Basic income per common share:			
Income from continuing operations	\$ 1.44	\$ 0.15	\$ 0.11
Income from discontinued operations	1.32	0.05	0.00
Net income	\$ 2.76	\$ 0.20	\$ 0.11
Diluted income per common share:			
Income from continuing operations	\$ 1.26	\$ 0.15	\$ 0.10
Income from discontinued operations	1.12	0.05	0.01

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Net income	\$	2.38	\$	0.20	\$	0.11
Weighted-average shares outstanding used in computing income per common share:						
Basic		279,234		341,747		320,080
Diluted		331,642		352,852		333,343

See accompanying notes.

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**EMDEON CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
(In thousands, except share data)

	Stockholders Equity						Accumulated Other Comprehensive Income	
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Treasury Stock Shares	Treasury Stock Amount		Accumulated Deficit (Restated)
<b>2003</b>	384,751,705	\$ 38	\$ 11,726,734	\$ (4,683)	76,576,865	\$ (347,858)	\$ (10,218,671) 36,611	\$ 16,420
on								(10,581)
ey								2,118
vestment								
income								
mon								
401(k)	9,289,615	1	38,051					
nces								
rants in								
es and								
vertible			15					
referred							(184)	
ation			13,001	(13,001)				
asury			70	8,905				
deferred					4,272,630	(32,110)		
ation for			(960)	960				
<b>2004</b>	394,041,320	39	11,776,911	(7,819)	80,849,495	(379,968)	(10,182,244) 68,811	7,957
								2,976

on								
by								
vestment								(3,326)
income								
mon								
401(k)								
nces	11,385,269	1	48,570					
ce of								
Common			82,275					
ble								
otes	23,197,650	3	214,014					
nvertible								
referred								(234)
			2,241	(2,241)				
ation			330	3,451				
asury								
urchase					2,541,000	(21,246)		
asury								
offer					66,905,919	(549,268)		
deferred								
ation for			(2,910)	2,910				
<b>2005</b>	428,624,239	43	12,121,431	(3,699)	150,296,414	(950,482)	(10,113,667)	7,607
							771,917	
on								
by								(1,108)
vestment								3,611
income								
mon								
and								
2005	20,976,508	2	151,237					
nvertible								(235)
referred								

ferred ation AS 123R ation		(3,699)	3,699						
		26,720							
asury urchase				8,240,245	(83,167)				
asury offer ces of Common				129,234,164	(1,552,120)				
		16,779							
st impact red to		(22,342)							
<b>2006</b>	449,600,747	\$ 45	\$ 12,290,126	\$	287,770,823	\$ (2,585,769)	\$ (9,341,985)	\$	10,110

See accompanying notes.

## EMDEON CORPORATION

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 771,917	\$ 68,811	\$ 36,611
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations, net of tax	(371,060)	(16,265)	(1,956)
Depreciation and amortization	61,976	60,905	48,707
Minority interest in WHC	405	775	
Equity in earnings of EBS Master LLC	(763)		
Amortization of debt issuance costs	2,906	2,541	2,975
Non-cash advertising and distribution	7,414	10,870	18,826
Non-cash stock-based compensation	44,955	4,880	7,860
Deferred income taxes	(3,877)	4,296	2,723
Bad debt expense	1,627	2,527	(1,653)
Loss (gain) on investments		6,365	(457)
Gain on sale of EBS	(352,297)		
Loss on redemption of convertible debt		1,902	
Reversal of income tax valuation allowance applied to goodwill	30,770	174	
Changes in operating assets and liabilities:			
Accounts receivable	(45,434)	(30,021)	(23,156)
Inventory	190	(755)	(761)
Prepaid expenses and other, net	(12,131)	2,629	2,746
Accounts payable	162	(6,212)	6,418
Accrued expenses and other long-term liabilities	20,621	7,480	(47,647)
Deferred revenue	15,654	7,954	8,817
Net cash provided by continuing operations	173,035	128,856	60,053
Net cash provided by discontinued operations	25,985	32,430	29,991
Net cash provided by operating activities	199,020	161,286	90,044
<b>Cash flows from investing activities:</b>			
Proceeds from maturities and sales of available-for-sale securities	928,284	1,063,606	1,408,091
Purchases of available-for-sale securities	(686,815)	(758,687)	(1,308,303)
Purchases of property and equipment	(54,885)	(50,876)	(29,629)
Cash paid in business combinations, net of cash acquired	(152,772)	(93,712)	(249,332)
Proceeds from the sale of EBS	1,199,872		
Advances to EBS Master LLC	(20,016)		
Proceeds from the sale of discontinued operations	522,604		

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Other changes in equity of discontinued operations	28,279	23,176	19,557
Net cash provided by (used in) continuing operations	1,764,551	183,507	(159,616)
Net cash used in discontinued operations	(26,010)	(34,575)	(28,536)
Net cash provided by (used in) investing activities	1,738,541	148,932	(188,152)
	See accompanying notes.		

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	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of Emdeon and WHC common stock	156,078	48,571	38,052
Purchases of treasury stock under repurchase program	(83,167)	(21,246)	(32,110)
Purchases of treasury stock in tender offer	(1,552,120)	(549,268)	
Payments of notes payable and other	(437)	(631)	(602)
Net proceeds from issuance of convertible debt		289,875	
Issuance of WHC common stock in initial public offering		123,344	
Redemption of convertible debt		(86,694)	
Net proceeds from issuance of preferred shares			98,115
Net cash (used in) provided by continuing operations	(1,479,646)	(196,049)	103,455
Net cash used in discontinued operations			
Net cash (used in) provided by financing activities	(1,479,646)	(196,049)	103,455
Effect of exchange rates on cash	1,135	(678)	1,024
Net increase in cash and cash equivalents	459,050	113,491	6,371
Changes in cash attributable to discontinued operations	25	2,145	(1,455)
Cash and cash equivalents at beginning of period	155,616	39,980	35,064
Cash and cash equivalents at end of period	\$ 614,691	\$ 155,616	\$ 39,980

See accompanying notes.

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

#### 1. Summary of Significant Accounting Policies

##### Background

Emdeon Corporation ( Emdeon or the Company ) is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. Emdeon's Common Stock began trading on the Nasdaq National Market under the symbol HLTH on February 11, 1999 and now trades on the Nasdaq Global Select Market. The Company changed its name to Healtheon/WebMD Corporation in November 1999 and to WebMD Corporation in September 2000. In October 2005, WebMD Corporation changed its name to Emdeon Corporation in connection with the initial public offering of equity securities of WebMD Health Corp. ( WHC ), a subsidiary that the Company formed to act as a holding company for the business of the Company's WebMD segment (described below) and to issue shares in that initial public offering. Because the WebMD name had been more closely associated with the Company's public and private online portals than with its other businesses, the Company's Board of Directors determined that WHC would, following its initial public offering, have the sole right to use the WebMD name and related trademarks.

The Company's consolidated financial statements have been restated to correct the previously reported income tax provision (benefit) which is more fully described in Note 24, Restatement of Consolidated Financial Statements.

##### Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of Emdeon Corporation and its subsidiaries and have been prepared in United States dollars, and in accordance with U.S. generally accepted accounting principles ( GAAP ). The consolidated accounts include 100% of the assets and liabilities of the majority-owned WHC and the ownership interests of minority stockholders of WHC are recorded as minority interest in WHC in the accompanying consolidated balance sheets.

On September 14, 2006, the Company completed the sale of its Emdeon Practice Services ( EPS ) segment to Sage Software, Inc. (the EPS Sale ). Accordingly, the historical results of EPS, including the gain related to the sale, have been reclassified as discontinued operations in the accompanying consolidated financial statements. See Note 2 for a further description of this transaction.

On November 16, 2006, the Company completed the sale of a 52% interest in its Emdeon Business Services segment, excluding the ViPS business unit ( EBS ) to an affiliate of General Atlantic LLC (the EBS Sale ). The Company's remaining 48% ownership interest in EBS is being accounted for under the equity method since the transaction date. See Note 3 for a further description of this transaction.

##### Business

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

*WebMD* provides both public and private online portals. WebMD's public portals for consumers enable them to obtain detailed information on a particular disease or condition, analyze symptoms, locate physicians, store individual healthcare information, receive periodic e-newsletters on topics of individual interest, enroll in

interactive courses and participate in online communities with peers and experts. WebMD's public portals for physicians and healthcare professionals make it easier for them to access clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education ( CME ) credit and communicate with peers. WebMD's private portals enable employers and health plans to provide their employees and plan members with access to personalized health and benefit information and decision-support technology that helps them make more informed benefit, provider and treatment choices. In addition, WebMD publishes: medical



## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reference textbooks; *The Little Blue Book*, a physician directory; and, since 2005, *WebMD the Magazine*, a consumer magazine distributed to physician office waiting rooms. WebMD also conducts in-person CME as a result of the acquisition of the assets of Conceptis Technologies, Inc. in December 2005.

*ViPS (formerly a business unit of EBS)* provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers. ViPS develops tools for disease management, predictive modeling, provider performance, HEDIS<sup>®</sup> quality improvement, healthcare fraud detection and financial management. Consultants and outsourcing services are also provided to assess workflow, perform software maintenance, design complex database architectures and perform data analysis and analytic reporting functions.

*Porex* develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications, which include porous components and finished products for both business-to-business and OEM applications. Porex also provides technologically advanced sterile surgical products used in craniofacial/oculoplastic reconstruction and aesthetic/ cosmetic surgery in hospitals, clinics and private practice surgical offices.

*Emdeon Business Services* provides solutions that automate key business and administrative functions for healthcare payers and providers, including electronic patient eligibility and benefit verification; electronic and paper claims processing; electronic and paper paid-claims communication services; and patient billing, payment and communications services. In addition, EBS provides clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. As a result of the EBS Sale, beginning November 17, 2006, the results of EBS are no longer included in the segment results. See Note 3.

*Corporate* includes services shared across all operating segments, such as executive personnel, accounting, tax, treasury, legal, human resources, risk management and certain information technology functions. 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. Additionally, in connection with the EBS Sale and EPS Sale, the Company entered into transition services agreements whereby the Company will provide EPS and EBS certain administrative services, including payroll, accounting, purchasing and procurement, tax, and human resource services, as well as information technology ( IT ) support. Additionally, EBS will provide certain administrative services to the Company. See Note 2 and Note 3. These services will be provided through the Corporate segment, and the related transition services fee the Company charges to EBS and EPS, net of the fee the Company will pay to EBS will also be included in the Corporate segment, which approximates the cost of providing these services.

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The results of operations for companies acquired or disposed of are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. All material intercompany balances and transactions have been eliminated in consolidation.

#### Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and

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

various other assumptions that the Company believes are necessary to consider in order to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, and disclosure of contingent assets and liabilities. 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, 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 and Web site 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 employee stock options and other stock-based awards.

**Minority Interest**

Minority interest represents the minority stockholders' proportionate share of equity and net income or net loss of the Company's consolidated WebMD segment. Additionally, minority interest includes the non-cash stock-based compensation expense related to stock options and other stock awards based on WHC Class A Common Stock that have been expensed since the adoption of Statement of Financial Accounting Standards (SFAS) No. 123, (Revised 2004): Share-Based Payment on January 1, 2006, and to a much lesser extent, the expense associated with these awards that were expensed in connection with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) prior to January 1, 2006. Additionally, as of December 31, 2006, minority interest includes the value of committed, but unissued WHC equity, in connection with the December 2006 Subimo acquisition. The minority stockholders' proportionate share of the equity in WHC of \$101,860 and \$43,096, as of December 31, 2006 and 2005, respectively, is reflected as minority interest in WebMD Health Corp. (WHC) in the accompanying consolidated balance sheets. The minority stockholders' proportionate share of net income for the years ended December 31, 2006 and 2005 was \$405 and \$775, respectively, and is reflected as minority interest in WHC in the accompanying consolidated statements of operations.

**Sale of Stock by a Subsidiary**

The Company accounts for the sale of stock by a subsidiary of the Company in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 51, Accounting for Sales of Stock by a Subsidiary (SAB 51), which requires that the difference between the carrying amount of the parent's investment in a subsidiary and the underlying net book value of the subsidiary after the issuance of stock by the subsidiary be reflected as either a gain or loss in the statement of operations or reflected as an equity transaction. The Company has elected to record gains or losses resulting from the sale of a subsidiary's stock as equity transactions. The Company does not record any deferred taxes related to the SAB 51 gains associated with WHC, as under current federal tax rules and regulations, it has the ability to recover its investment in WHC on a tax free basis. Although the Company presently has no intent to dispose of its interest in WHC, were such a transaction under consideration, the Company would expect to pursue a tax free structure. In the event a tax free structure was not feasible, a provision for taxes would be recorded at the time of any such transaction.



**EMDEON CORPORATION**

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

**Cash and Cash Equivalents**

All highly liquid investments with an original maturity from the date of purchase of three months or less are considered to be cash equivalents. These short-term investments are stated at cost, which approximates market. The Company's cash and cash equivalents are invested in various investment-grade commercial paper, money market accounts and federal agency notes.

**Marketable Securities**

The Company classifies its investments in marketable securities as available-for-sale or held-to-maturity at the time of purchase and re-evaluates such classifications at each balance sheet date. Debt securities in which the Company has the positive intent and ability to hold the securities to maturity are classified as held-to-maturity; otherwise they are classified as available-for-sale. Investments in marketable equity securities are also classified as available-for-sale. Held-to-maturity securities are carried at amortized cost and available-for-sale securities are carried at fair value as of the balance sheet date.

Unrealized gains and losses are recorded as a component of accumulated other comprehensive income in stockholders equity. Once realized, the gains and losses and declines in value determined to be other-than-temporary on available-for-sale securities are recorded in the accompanying consolidated statements of operations. A decline in value is deemed to be other-than-temporary if the Company does not have the intent and ability to retain the investment until any anticipated recovery in market value, the extent and length of the time to which the market value has been less than cost and the financial condition and near-term prospects of the investment. The cost of securities is based on the specific identification method.

**Equity Investment in EBS Master LLC**

The Company accounts for its investment in EBS Master LLC in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock (APB 18)", which stipulates that the equity method should be used to account for investments whereby an investor has the ability to exercise significant influence over operating and financial policies of an investee, but does not exercise control. APB 18 generally considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee.

The Company assesses the recoverability of the carrying value of its investments whenever events or changes in circumstances indicate a loss in value that is other than a temporary decline. A decline in value is deemed to be other-than-temporary, but not limited to, if the Company does not have the intent and ability to retain the investment until any anticipated recovery in carrying amount of the investment, inability of the investment to sustain an earnings capacity which would justify the carrying amount or the current fair value of the investment is less than its carrying amount.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts receivable reflects the Company's best estimate of losses inherent in the Company's receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.

**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, paper, 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. Included in inventory as of December 31, 2006 was \$4,635, \$1,572 and \$3,715 of raw materials and supplies,

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

work-in-process and finished goods, respectively. As of December 31, 2005, \$5,432, \$1,622 and \$3,737 of raw materials and supplies, work-in-process and finished goods, respectively, was included in inventory.

**Long-Lived Assets*****Property and Equipment***

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The useful lives are generally as follows:

Computer equipment	3 to 5 years
Buildings	Up to 40 years
Office equipment, furniture and fixtures	3 to 7 years
Software and Web site development costs	3 years
Leasehold improvements	Shorter of useful life or lease term

Expenditures for maintenance, repair and renewals of minor items are charged to expense as incurred. Major betterments are capitalized.

***Goodwill and Intangible Assets***

Goodwill and intangible assets result from acquisitions accounted for under the purchase method. Goodwill is subject to impairment review by applying a fair value based test. Intangible assets with definite lives are amortized on a straight-line basis over the individually estimated useful lives of the related assets as follows:

Customer relationships	2 to 15 years
Trade names	3 to 10 years
Technology and patents	3 to 40 years
Non-compete agreements, content and other	2 to 5 years

***Recoverability***

In accordance with SFAS 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), the Company reviews the carrying value of goodwill annually. The Company measures impairment losses by comparing the carrying value of its reporting units to the fair value of its reporting units determined using an income approach valuation. The Company's reporting units are determined in accordance with SFAS 142, which defines a reporting unit as an operating segment or one level below an operating segment.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ), long-lived assets used in operations are reviewed for impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value.

**Software Development Costs**

*Software to be Sold, Leased or Otherwise Marketed*

SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, requires the capitalization of certain software development costs subsequent to the establishment

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of technological feasibility. Based upon the Company's product development process, technological feasibility is established upon the completion of a working model. The costs incurred from the time a working model is available until general release are immaterial.

#### *Internal Use Software*

The Company accounts for internal use software development costs in accordance with Statement of Position ( SOP ) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ( SOP 98-1 ). Software development costs that are incurred in the preliminary project stage are expensed as incurred. Once certain criteria of SOP 98-1 have been met, internal and external direct costs incurred in developing or obtaining computer software are capitalized in the accompanying consolidated balance sheets as property and equipment. Training and data conversion costs are expensed as incurred. Capitalized software costs are depreciated over a three-year period. The Company capitalized \$19,913 and \$12,281 during the years ended December 31, 2006 and 2005, respectively. Depreciation expense related to internal use software was \$7,685, \$7,361 and \$4,656 for the years ended December 31, 2006, 2005 and 2004, respectively.

#### *Web Site Development Costs*

In accordance with Emerging Issues Task Force ( EITF ) Issue No. 00-2 Accounting for Web Site Development Costs, costs related to the planning and post implementation phases of the Company's Web site development efforts, as well as minor enhancements and maintenance, are expensed as incurred. Direct costs incurred in the development phase are capitalized. The Company capitalized \$11,467 and \$1,222 during the years ended December 31, 2006 and 2005, respectively. These capitalized costs are included in property and equipment in the accompanying consolidated balance sheets and are depreciated over a three-year period. Depreciation expense related to Web site development costs was \$444 during the year ended December 31, 2006. There was no depreciation expense related to Web site development costs in the years ended December 31, 2005 and 2004.

#### **Restricted Cash**

The Company's restricted cash primarily relates to collateral for letters of credit obtained to support the Company's operations. As of December 31, 2006 and 2005, the total restricted cash was \$17,609 and \$17,319, respectively, and is included in other assets in the accompanying consolidated balance sheets.

#### **Deferred Charges**

Other assets includes costs associated with the issuance of the convertible notes that are amortized to interest expense in the accompanying consolidated statements of operations, using the effective interest method over the period from issuance through the earliest date on which holders can demand redemption. The Company capitalized \$10,731 of issuance costs in connection with the issuance of the \$300,000 31/8% Convertible Notes due 2025 and \$10,354 of issuance costs in connection with the issuance of the \$350,000 1.75% Convertible Subordinated Notes due 2023. As of December 31, 2006 and 2005, the total unamortized issuance costs for all outstanding convertible notes were \$14,108 and \$17,783, respectively.

#### **Revenue**

#### *Recognition*

Revenue is derived from the Company's WebMD, ViPS and Porex segments and was derived from the Company's EBS segment until the date of its sale on November 16, 2006.

Through WebMD, the Company generates revenue from advertising which is recognized as advertisements are delivered or as publications are distributed. Revenue from sponsorship arrangements,

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

content syndication and distribution arrangements and licenses of healthcare management tools and private portals as well as related health coaching services are recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period the Company substantially completes its contractual deliverables as determined by the applicable agreements. Subscription revenue is recognized over the subscription period. When contractual arrangements contain multiple elements, revenue is allocated to each element based on its relative fair value, determined using prices charged when elements are sold separately. In certain instances where fair value does not exist for all the elements, the amount of revenue allocated to the delivered elements equals the total consideration less the fair value of the undelivered elements. In instances where fair value does not exist for the undelivered elements, revenue is recognized when the last element is delivered.

Through ViPS, the Company generates revenue by licensing data warehousing and decision-support software and providing related support and maintenance for that software, and by providing information technology consulting services to payers, including governmental payers. The Company charges healthcare payers annual license fees, which are typically based on the number of covered members, for use of its software and provides business and information technology consulting services to them on a time and materials basis. The professional consulting services the Company provides to certain governmental agencies are typically billed on a cost-plus fee structure.

Data warehousing and 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.

Through Porex, the Company develops, manufactures and distributes porous plastic products and components. For standard products, revenue is recognized upon shipment of product, net of sales returns and allowances, provided that persuasive evidence of an arrangement exists, delivery has occurred and all significant obligations have been satisfied, the fee is fixed or determinable and collection is considered probable. Appropriate reserves are established for anticipated returns and allowances based on past experience. For sales of certain custom products, revenue is recognized upon completion and customer acceptance.

Through the date of the EBS Sale on November 16, 2006, the Company generated revenue by selling transaction services to healthcare payers and providers, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. The Company also generated revenue through EBS by selling its document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. Revenue for transaction services, patient statement and paid-claims communication services was recognized as the services were provided. EBS generally charged a one-time implementation fee to healthcare payers and providers at the inception of a contract, in connection with their related setup to submit and receive medical claims and other related transactions through EBS's clearinghouse network. The implementation fees were deferred and amortized to revenue on a straight line basis over the contract period of the related transaction processing services, which generally vary from one to three years.

Cash receipts or billings in advance of revenue recognition are recorded as deferred revenue in the accompanying consolidated balance sheets. The deferred revenue is reversed at the time revenue is recognized.

### *Products and Services*

The Company's revenue consists of product and service revenue. Service revenue is comprised of revenue earned through the Company's automated business and administrative functions for healthcare payers and providers, and consulting services to governmental agencies and commercial enterprises, and content sponsorship, advertising and licensing of the Company's private and public online portals. The Company's

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

product revenue is primarily comprised of porous plastic products and components used in healthcare, industrial and consumer applications which are sold through its Porex segment. Additionally, product revenues include other miscellaneous products, such as, medical forms and supplies, medical reference publications and directories, as well as other miscellaneous software products.

#### *Sales, Use and Value Added Tax*

The Company excludes sales, use and value added tax from revenue in the consolidated statements of operations.

#### **Advertising Costs**

Advertising costs are generally expensed as incurred and included in sales, marketing, general and administrative expense in the accompanying consolidated statements of operations. Advertising expense totaled \$20,529, \$20,354 and \$30,145 in 2006, 2005 and 2004, respectively. Included in advertising expense were non-cash advertising costs of \$7,414, \$10,534 and \$15,980 in 2006, 2005 and 2004, respectively. These non-cash advertising costs resulted from the issuance of the Company's equity securities in connection with past advertising agreements with certain service providers. The values of the equity securities issued were capitalized and are being amortized as the advertisements are broadcast or over the term of the underlying agreement. As of December 31, 2006 and 2005, the current portion of unamortized prepaid advertising costs was \$2,656 and \$7,424, respectively, and is included in prepaid expenses and other current assets. As of December 31, 2006 and 2005, the long-term portion of unamortized prepaid advertising costs was \$9,459 and \$12,104, respectively, and is included in other assets.

#### **Foreign Currency**

The financial statements and transactions of the Company's foreign facilities are maintained in their local currency. In accordance with SFAS No. 52, Foreign Currency Translation, the translation of foreign currencies into United States dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using average exchange rates during the year. The gains or losses resulting from translation are included as a component of accumulated other comprehensive income within stockholders' equity. Foreign currency transaction gains and losses are included in net income and were not material in any of the periods presented.

#### **Concentration of Credit Risk**

The Company's revenue is principally generated in the United States. An adverse change in economic conditions in the United States could negatively affect the Company's revenue and results of operations. The Company places its short-term investments in a variety of financial instruments and, by policy, limits the amount of credit exposure through diversification and by restricting its investments to highly rated securities.

#### **Income Taxes and Tax Contingencies**

Income taxes are accounted for using the liability method in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). Under this method, deferred income taxes are recognized for the future tax consequence of differences between the tax and financial reporting basis of assets and liabilities at each reporting period. A valuation allowance is established to reduce deferred tax assets to the amounts expected to be realized. Tax contingencies are recorded to address potential exposures involving tax positions the Company has taken that could be challenged by tax

authorities. These potential exposures result from applications of various statutes, rules, regulations and interpretations. The Company's estimates of tax contingencies contain assumptions and judgments about potential actions by taxing jurisdictions.

**EMDEON CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Accounting for Stock-Based Compensation**

On January 1, 2006, the Company adopted 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 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. The Company elected to use the modified prospective transition method and as a result, prior period results were not restated. Under the modified prospective transition method, awards that were granted or modified on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. Unvested stock options and restricted stock awards that were granted prior to January 1, 2006 will continue to be accounted for in accordance with SFAS 123, using the same grant date fair value and same expense attribution method used under SFAS 123, except that all awards are recognized in the results of operations over the remaining vesting periods. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized for all stock-based compensation beginning January 1, 2006.

Prior to January 1, 2006, the Company accounted for stock-based employee compensation using the intrinsic value method under the recognition and measurement principles of APB 25, and related interpretations. In accordance with APB 25, the Company did not recognize stock-based compensation cost with respect to stock options granted with an exercise price equal to the market value of the underlying common stock on the date of grant. As a result, the recognition of stock-based compensation expense was generally limited to the expense related to restricted stock awards and stock option modifications, as well as the amortization of deferred compensation related to certain acquisitions in 2000. Additionally, all restricted stock awards and stock options granted prior to January 1, 2006 had graded vesting, and the Company valued these awards and recognized actual and pro-forma expense, with respect to restricted stock awards and stock options, as if each vesting portion of the award was a separate award. This resulted in an accelerated attribution of compensation expense over the vesting period. As permitted under SFAS 123R, the Company began using a straight-line attribution method beginning January 1, 2006 for all stock options and restricted stock awards granted on or after January 1, 2006, but will continue to apply the accelerated attribution method for the remaining unvested portion of any awards granted prior to January 1, 2006.

**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 128 ). In accordance with SFAS 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 participating rights 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 and assumes that any dilutive convertible notes were converted, only in the periods in which such effect is dilutive. 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. The impact of WHC's potentially dilutive securities on the calculation of diluted income per common share was not material during any of the





## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

periods presented. The following table presents the calculation of basic and diluted income per common share (shares in thousands):

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
Numerator:			
Income from continuing operations Basic	\$ 400,857	\$ 52,546	\$ 34,655
Interest expense on convertible notes	18,406		
Income from continuing operations Diluted	\$ 419,263	\$ 52,546	\$ 34,655
Income from discontinued operations, net of tax	\$ 371,060	\$ 16,265	\$ 1,956
Denominator:			
Common stock	268,596	331,109	311,721
Convertible redeemable exchangeable preferred stock	10,638	10,638	8,359
Weighted-average shares Basic	279,234	341,747	320,080
Employee stock options, restricted stock and warrants	10,392	11,105	13,263
Convertible notes	42,016		
Weighted-average shares Diluted	331,642	352,852	333,343
Basic income per common share:			
Income from continuing operations	\$ 1.44	\$ 0.15	\$ 0.11
Income from discontinued operations	1.32	0.05	0.00
Net income	\$ 2.76	\$ 0.20	\$ 0.11
Diluted income per common share:			
Income from continuing operations	\$ 1.26	\$ 0.15	\$ 0.10
Income from discontinued operations	1.12	0.05	0.01
Net income	\$ 2.38	\$ 0.20	\$ 0.11

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 during the periods in which such securities were anti-dilutive. The following table presents the total number of shares that could potentially dilute income per common share in the future that were not included in the computation of diluted income per common share during the periods presented (shares in thousands):

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Options and warrants	50,505	60,007	83,986
Convertible notes		42,016	55,129
	50,505	102,023	139,115

**Discontinued Operations**

The Company accounts for discontinued operations in accordance with SFAS 144. Under SFAS 144, the operating results of a business unit are reported as discontinued if its operations and cash flows can be clearly distinguished from the rest of the business, the operations have been sold, there will be no continuing

## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

involvement in the operation after the disposal date and certain other criteria are met. Significant judgments are involved in determining whether a business component meets the criteria for discontinued operation reporting and the period in which these criteria are met.

#### Recent Accounting Pronouncements

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159)*. SFAS 159 permits many financial instruments and certain other items to be measured at fair value at the option of the company. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits the choice to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for financial statements issued for first fiscal year beginning after November 15, 2007. Early adoption is permitted provided that the choice be made in the first 120 days of that fiscal year and SFAS No. 157, *Fair Value Measurements*, is also adopted. The Company is currently evaluating the impact, if any, that this new standard will have on the Company's results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements (SFAS 157)*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that this new standard will have on the Company's results of operations, financial position or cash flows.

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes (FIN 48)*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, that this new standard will have on the Company's results of operations, financial position or cash flows.

#### Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation.

## 2. Discontinued Operations

In February 2006, the Company announced that, in connection with inquiries received from several third parties expressing an interest in acquiring EPS and EBS, the Company's Board of Directors authorized commencing a process to evaluate strategic alternatives relating to EPS and EBS. For information regarding the sale transaction involving EBS, see Note 3.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 8, 2006, the Company entered into a Stock Purchase Agreement for the sale of EPS to Sage Software, Inc. ( Sage Software ), an indirect wholly owned subsidiary of The Sage Group plc. On September 14, 2006, the Company completed the sale of Emdeon Practice Services, Inc., which together with its subsidiaries comprised EPS (the EPS Sale ). Accordingly, the historical financial information of EPS has been reclassified as discontinued operations in the accompanying consolidated financial statements. The Company and Sage Software will make an IRC Section 338(h)(10) election and will treat the EPS Sale as a sale of assets for tax purposes. The Company received net cash proceeds of \$532,024, which does not include \$35,000 being held in escrow as security for the Company's indemnification obligations under the Stock Purchase Agreement. One-third and two-thirds of the amount in escrow are scheduled to be released twelve and eighteen months from the closing date, subject to pending and paid claims, if any, and are included in other current assets and other assets, respectively, in the accompanying consolidated balance sheet as of December 31, 2006. The Company incurred approximately \$10,700 of professional fees and other expenses associated with the EPS Sale. In connection with the EPS Sale, the Company recognized a gain of \$353,158, which is included in income from discontinued operations, net of tax of \$33,037, in the accompanying consolidated statements of operations during the year ended December 31, 2006. Also included in income from discontinued operations for the year ended December 31, 2006 is \$17,902 representing the income from operations of EPS, net of tax, through the date of sale on September 14, 2006. Summarized operating results for EPS through September 14, 2006 and the gain recognized on the sale are as follows:

	Years Ended December 31,		
	2006	2005	2004
Revenue	\$ 212,329	\$ 304,175	\$ 296,115
Earnings before taxes	19,469	16,909	2,643
Taxes on earnings	1,567	644	687
Gain on disposal, net of tax	353,158		
Income from discontinued operations, net of tax	\$ 371,060	\$ 16,265	\$ 1,956

The assets and liabilities of EPS are reflected as discontinued operations as of December 31, 2005 and were comprised of the following:

	December 31, 2005
Assets of discontinued operations:	
Goodwill	\$ 179,574
Accounts receivable, net	37,753
Property and equipment, net	20,346
Other assets	16,574

Total	\$	254,247
Liabilities of discontinued operations:		
Deferred revenue	\$	47,450
Accounts payable and accrued liabilities		20,151
Other liabilities		835
Total	\$	68,436

In connection with the EPS Sale, the Company entered into a transition services agreement with EPS whereby it will provide EPS with certain administrative services, including payroll, accounting, purchasing and procurement, tax and human resource services, as well as IT support. The IT support services are

## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

scheduled to continue to September 2008, while the majority of the other services are scheduled to be completed by July 2007. Sage Software may at any time terminate any individual service prior to the scheduled end date, although they will continue to remain liable for any costs incurred by the Company due to early termination. The transition services fee charged to EPS for the period from September 15, 2006 to December 31, 2006 was \$2,099 and is included in the Company's Corporate segment, and within other expense, net in the accompanying consolidated statement of operations for the year ended December 31, 2006.

In connection with the EPS Sale, EPS agreed to continue its strategic relationship with WebMD and to integrate WebMD's personal health record with the clinical products, including the electronic medical record, of EPS to allow import of data from one to the other, subject to applicable law and privacy and security requirements.

### 3. Sale of Interest in Emdeon Business Services

On November 16, 2006, the Company completed the sale of a 52% interest in EBS to an affiliate of General Atlantic LLC (GA). The EBS Sale was structured so that the Company and GA each own interests in a limited liability company, EBS Master LLC (EBSCo), which owns the entities comprising EBS through a wholly owned limited liability company, Emdeon Business Services LLC. The Company received cash proceeds of approximately \$1,209,000 at closing, and received \$10,700 subsequent to December 31, 2006 in connection with a preliminary working capital adjustment. Additionally, the Company advanced cash of \$10,000 to EBSCo at closing, to support general working capital needs, and paid \$10,016 of expenses on EBSCo's behalf through December 31, 2006. These amounts are reflected within the caption Due from EBS Master LLC in the accompanying consolidated balance sheet as of December 31, 2006 and were repaid in full subsequent to December 31, 2006. The acquisition was financed with approximately \$925,000 in bank debt and an investment of approximately \$320,000 by GA. The bank debt is an obligation of Emdeon Business Services LLC and is guaranteed by EBSCo, but is not an obligation of or guaranteed by the Company. In connection with the EBS Sale, the Company recognized a gain of \$352,297, which considers approximately \$16,103 of professional fees and other expenses associated with the EBS Sale, of which approximately \$8,201 was unpaid as of December 31, 2006 and is therefore included in accrued expenses in the accompanying consolidated balance sheet as of December 31, 2006. While the determination of the gain on disposal is substantially complete, the purchase price is subject to customary post-closing adjustments, including any additional adjustment for working capital, which has not been finalized.

The Company's 48% ownership interest in EBSCo is reflected as an investment in the Company's consolidated financial statements, accounted for under the equity method. The 48% equity interest is \$1,521 at December 31, 2006, which results in a difference of \$129,272 in the carrying value and the underlying equity in the investment. This difference is principally due to the excess of the fair value of EBSCo's net assets as adjusted for in purchase accounting, over the carryover basis of the Company's investment in EBSCo. The Company's share of EBSCo's net earnings after the date of sale is reported as equity in earnings of EBS Master LLC in our accompanying consolidated statement of operations.

In connection with the EBS Sale, the Company entered into a transition services agreement whereby it will provide EBSCo with certain administrative services, including payroll, accounting, tax, treasury, contract and litigation support, real estate vendor management and human resource services, as well as IT support. Additionally, EBSCo will provide certain administrative services to the Company, including telecommunication infrastructure and management services, data center support, purchasing and procurement and certain other services. Some of the services provided by EBS to Emdeon are, in turn, used to fulfill Emdeon's obligation to provide transition services to EPS. The services

have various scheduled end dates, the longest of which extend one year from the EBS Sale. EBSCo or the Company may at any time terminate any individual service being received prior to the scheduled end date, although they will continue to remain liable for any costs incurred by the providing party due to early termination. The transition services fee charged to

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

EBSCo of \$610 for the period from November 17, 2006 to December 31, 2006; net of the amount charged to the Company of \$185 is included in the Company's Corporate segment, and within other expense, net in the accompanying statement of operations for the year ended December 31, 2006.

In connection with the EBS Sale, EBS agreed to continue its strategic relationship with WebMD and to market WebMD's online decision-support platform and tools that support consumer directed health plans and health savings accounts to its payer customers for integration into their consumer directed health plan offerings. In addition, EBS agreed to license certain de-identified data to Emdeon and its subsidiaries, including WebMD, for use in the development and commercialization of certain applications that use clinical information, including consumer decision-support applications.

The following table reflects the assets and liabilities of EBS as of December 31, 2005, which were included in the Company's consolidated balance sheet as of that date:

	<b>December 31, 2005</b>
<b>Assets:</b>	
Goodwill	\$ 681,612
Accounts receivable, net	108,609
Intangible assets, net	119,069
Property and equipment, net	46,667
Other assets	8,441
<b>Total</b>	<b>\$ 964,398</b>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	\$ 82,476
Deferred revenue	20,585
Other liabilities	584
<b>Total</b>	<b>\$ 103,645</b>

The following is summarized financial information of EBSCo for the period from November 17, 2006 to December 31, 2006 and as of December 31, 2006:

**For the Period from  
November 17, 2006  
through  
December 31,  
2006**

Statement of Operations Data:

Revenue	\$	87,903
Cost of operations		56,639
Net loss		990

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	<b>December 31, 2006</b>
Balance Sheet Data:	
Current assets	\$ 165,218
Non-current assets	1,196,825
 Total Assets	 \$ 1,362,043
 Current liabilities	 \$ 126,587
Non-current liabilities	962,972
Shareholders' equity	272,484
 Total Liabilities and Shareholders' Equity	 \$ 1,362,043

**4. Stock-Based Compensation**

The Company has various stock-based compensation plans (collectively, the Plans) under which directors, officers and other eligible employees receive awards of options to purchase Emdeon Common Stock and restricted shares of Emdeon Common Stock. Additionally, WHC has two similar stock-based compensation plans that provide for stock options and restricted stock awards based on WHC Class A Common Stock. The Company also maintains an Employee Stock Purchase Plan which provides employees with the ability to buy shares of Emdeon Common Stock at a discount. The following sections of this note summarize the activity for each of these plans.

**Emdeon Plans**

The Company had an aggregate of 5,782,723 shares of Emdeon Common Stock available for future grants under the Plans at December 31, 2006. In addition to the Plans, the Company has granted options to certain directors, officers and key employees pursuant to individual stock option agreements. At December 31, 2006, there were options to purchase 4,864,881 shares of Emdeon Common Stock outstanding to these individuals. The terms of these grants are similar to the terms of the stock options granted under the Plans and accordingly, the stock option activity of these individuals is included in all references to the Plans. The Company issues new shares when stock options are exercised under the Plans.

**Stock Options**

Generally, options under the Plans vest and become exercisable ratably over a three to five year period based on their individual grant dates subject to continued employment on the applicable vesting dates. The majority of options granted under the Plans expire within ten years from the date of grant. Options are granted

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

at prices not less than the fair market value of Emdeon's Common Stock on the date of grant. The following table summarizes activity for the Plans for the years ended December 31, 2006, 2005 and 2004:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value(1)
Outstanding at January 1, 2004	104,760,726	\$ 12.86		
Granted	19,230,750	8.31		
Exercised	(7,796,440)	4.42		
Cancelled	(9,937,784)	15.18		
Outstanding at December 31, 2004	106,257,252	12.44		
Granted	3,920,913	9.03		
Exercised	(9,235,018)	4.81		
Cancelled	(12,760,052)	13.37		
Outstanding at December 31, 2005	88,183,095	12.96		
Granted	9,845,500	10.10		
Exercised	(20,277,247)	7.40		
Cancelled	(14,151,477)	14.08		
Outstanding at December 31, 2006	63,599,871	\$ 14.04	4.7	\$ 95,618
Vested and exercisable at the end of the year	51,760,375	\$ 15.05	3.9	\$ 62,585

(1) The aggregate intrinsic value is based on the market price of Emdeon's Common Stock on December 29, 2006, the last trading day in December, which was \$12.39, less the applicable exercise price of the underlying option. This aggregate intrinsic value represents the amount that would have been realized if all of the option holders had exercised their options as of December 29, 2006.

The following table summarizes information with respect to options outstanding and options exercisable at December 31, 2006:

Outstanding Weighted	Weighted	Exercisable Weighted
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<b>Exercise Prices</b>	<b>Shares</b>	<b>Average Exercise Price Per Share</b>	<b>Average Remaining Contractual Life (In Years)</b>	<b>Shares</b>	<b>Average Exercise Price Per Share</b>
\$0.25-\$7.94	6,635,665	\$ 5.75	5.32	4,988,153	\$ 5.29
\$7.95-\$8.77	6,569,077	8.55	7.29	3,481,255	8.54
\$8.78-\$10.00	5,140,623	9.22	7.84	1,978,885	9.20
\$10.01-\$11.55	7,599,535	11.49	3.72	7,285,548	11.53
\$11.56-\$12.50	6,723,599	11.92	7.31	3,095,162	12.04
\$12.54-\$13.50	7,688,665	12.99	3.68	7,688,665	12.99
\$13.63-\$16.06	10,351,540	15.09	3.10	10,351,540	15.09
\$16.13-\$21.69	6,889,317	18.84	3.36	6,889,317	18.84
\$22.18-\$105.00	6,001,850	32.94	2.87	6,001,850	32.94
	63,599,871	\$ 14.04	4.74	51,760,375	\$ 15.05

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and using the assumptions noted in the following table. Expected volatility is based on implied volatility from traded options of Emdeon's Common Stock combined with historical volatility of Emdeon's Common Stock. Prior to January 1, 2006, only historical volatility was considered. The expected term represents the period of time that options are expected to be outstanding following their grant date, and was determined using historical exercise data. The risk-free rate is based on the U.S. Treasury yield curve for periods equal to the expected term of the options on the grant date.

	Years Ended December 31,		
	2006	2005	2004
Expected dividend yield	0%	0%	0%
Expected volatility	0.37	0.50	0.58
Risk free interest rate	4.54%	3.48%	1.70%
Expected term (years)	4.46	3.25-5.50	3.25-5.50
Weighted fair value of options granted during the year	\$ 3.79	\$3.68	\$3.68

*Restricted Stock Awards*

Emdeon Restricted Stock consists of shares of Emdeon Common Stock which have been awarded to employees. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee until they vest. Generally, Emdeon Restricted Stock awards vest ratably over a three to five year period from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of Emdeon Restricted Stock for the years ended December 31, 2006, 2005 and 2004:

	Years Ended December 31,					
	2006		2005		2004	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at the beginning of the year	1,042,557	\$ 8.24	1,637,609	\$ 8.02	214,927	\$ 6.31
Granted	2,298,010	10.66	239,000	9.38	1,584,800	8.20
Vested	(562,575)	8.39	(481,716)	8.04	(70,532)	6.31
Forfeited	(477,146)	9.13	(352,336)	8.26	(91,586)	8.49
Balance at the end of the year	2,300,846	\$ 10.44	1,042,557	\$ 8.24	1,637,609	\$ 8.02

Proceeds received from the exercise of options to purchase Emdeon Common Stock were \$150,065, \$44,456 and \$34,429 for the years ended December 31, 2006, 2005 and 2004, respectively. The intrinsic value related to the exercise of these stock options, as well as the fair value of shares of Emdeon Restricted Stock that vested was \$92,574, \$46,756 and \$30,703 for the years ended December 31, 2006, 2005 and 2004, respectively. While the intrinsic value of these stock options and shares of Emdeon Restricted Stock awards is deductible for tax purposes, subject to Section 162(m) of the Internal Revenue Code, these tax benefits were not realized as the Company has NOL carryforwards.

#### **WebMD Plans**

During September 2005, WHC adopted the 2005 Long-Term Incentive Plan (the WHC Plan ). In connection with the acquisition of Subimo, LLC in December 2006, WHC adopted the WebMD Health Corp.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Term Incentive Plan for Employees of Subimo, LLC (the Subimo Plan). The terms of the Subimo Plan are similar to the terms of the WHC Plan but it has not been approved by WHC stockholders. Awards under the Subimo Plan will be made in reliance on the NASDAQ Stock Market exception to shareholder approval for equity grants to new hires. The WHC Plan and the Subimo Plan are included in all references as the WebMD Plans. The maximum number of shares of WHC Class A Common Stock that may be subject to options or restricted stock awards under the WebMD Plans is 7,630,574, subject to adjustment in accordance with the terms of the WebMD Plans. WHC had an aggregate of 1,391,670 shares of Class A Common Stock available for grant under the WebMD Plans at December 31, 2006. During 2006, WHC stock options were exercised and restricted stock awards were released in accordance with the WHC Plans.

*Stock Options*

Generally, options under the WebMD Plans vest and become exercisable ratably over a four-year period based on their individual grant dates subject to continued employment on the applicable vesting dates. The options granted under the WebMD Plans expire within ten years from the date of grant. Options are granted at prices not less than the fair market value of WHC's Class A Common Stock on the date of grant. The following table summarizes activity for the WebMD Plans for the year ended December 31, 2006:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value(1)
Outstanding at January 1, 2005		\$		
Granted	4,574,900	18.31		
Exercised				
Cancelled	(41,800)	18.31		
Outstanding at December 31, 2005	4,533,100	18.31		
Granted	1,683,700	38.16		
Exercised	(291,154)	18.05		
Cancelled	(523,863)	27.84		
Outstanding at December 31, 2006	5,401,783	\$ 23.59	9.0	\$ 89,309
Vested and exercisable at the end of the year	796,731	\$ 18.38	8.8	\$ 17,245

- (1) The aggregate intrinsic value is based on the market price of WHC's Class A Common Stock on December 29, 2006, the last trading day in December, which was \$40.02, less the applicable exercise price of the underlying option. This aggregate intrinsic value represents the amount that would have been realized if all of the option



holders had exercised their options as of December 29, 2006.

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information with respect to options outstanding and options exercisable at December 31, 2006:

Exercise Prices	Shares	Outstanding		Exercisable	
		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share	Weighted Average Exercise Price Per Share
\$17.50	3,673,883	\$ 17.50	8.70	726,231	\$ 17.50
\$24.00-\$29.90	337,725	27.70	8.90	68,800	27.32
\$30.41-\$37.97	421,050	36.03	9.60	1,700	30.48
\$38.01-\$39.77	467,075	38.46	9.50		
\$40.02-\$47.30	502,050	41.11	9.80		
	5,401,783	\$ 23.59	9.00	796,731	\$ 18.38

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and using the assumptions noted in the following table. Expected volatility is based on implied volatility from traded options of stock of comparable companies combined with historical stock price volatility of comparable companies. The expected term represents the period of time that options are expected to be outstanding following their grant date, and was determined using historical exercise data of WHC employees who were previously granted Emdeon stock options. The risk-free rate is based on the U.S. Treasury yield curve for periods equal to the expected term of the options on the grant date.

	Years Ended December 31,	
	2006	2005
Expected dividend yield	0%	0%
Expected volatility	0.60	0.60
Risk free interest rate	4.69%	4.05%
Expected term (years)	3.24	3.25-5.50
Weighted fair value of options granted during the year	\$ 17.33	\$8.75

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Restricted Stock Awards*

WHC Restricted Stock consists of shares of WHC Class A Common Stock which have been awarded to employees. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee until they vest. Generally, WHC Restricted Stock awards vest ratably over a four-year period from their individual award dates subject to continued employment on the applicable vesting dates. The following table summarizes the activity of WHC Restricted Stock for the years ended December 31, 2006 and 2005:

	Years Ended December 31,			
	2006		2005	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at the beginning of the year	376,621	\$ 17.55		\$
Granted	184,710	39.50	376,621	17.55
Vested	(94,418)	17.61		
Forfeited	(25,230)	39.00		
Balance at the end of the year	441,683	\$ 25.49	376,621	\$ 17.55

Proceeds received from the exercise of options to purchase WHC Class A Common Stock were \$5,257 for the year ended December 31, 2006. The intrinsic value related to the exercise of these stock options, as well as the fair value of shares of WHC Restricted Stock that vested was \$9,115 for the year ended December 31, 2006. While the intrinsic value of these stock options and shares of WHC Restricted Stock awards is deductible for tax purposes, subject to Section 162(m) of the Internal Revenue Code, these tax benefits were not realized as the Company has NOL carryforwards.

*Other*

At the time of the WHC initial public offering and subsequently on the first anniversary, WHC issued shares of WHC Class A Common Stock to each non-employee director with a value equal to their annual board and committee retainers. The Company recorded \$340 and \$85 of stock-based compensation expense during the years ended December 31, 2006 and 2005, respectively, in connection with these issuances.

Additionally, the Company recorded \$69 of stock-based compensation expense during 2006 in connection with a stock transferability right for shares required to be issued in connection with the acquisition of Subimo, LLC by WHC.

**Employee Stock Purchase Plan**

The Company's 1998 Employee Stock Purchase Plan, as amended from time to time (the "ESPP"), allows eligible employees the opportunity to purchase shares of Emdeon Common Stock through payroll deductions, up to 15% of a participant's annual compensation with a maximum of 5,000 shares available per participant during each purchase period. The purchase price of the stock is 85% of the fair market value on the last day of each purchase period. As of December 31, 2006, a total of 7,335,822 shares of Emdeon Common Stock were reserved for issuance under the ESPP. The ESPP provides for annual increases equal to the lesser of 1,500,000 shares, 0.5% of the outstanding common shares, or a lesser amount determined by the Board of Directors. There were 274,378, 383,658 and 393,228 shares issued under the ESPP during the years ended December 31, 2006, 2005 and 2004, respectively.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Summary of Stock-Based Compensation Expense

The following table summarizes the components and classification of stock-based compensation expense:

	Years Ended December 31,		
	2006	2005	2004
Emdeon Plans:			
Stock options	\$ 20,685	\$ 462	\$ 3,821
Restricted stock	5,635	3,318	5,154
WHC Plans:			
Stock options	17,810		
Restricted stock	3,736	874	
Employee Stock Purchase Plan	406		
Other	409	85	
Total stock-based compensation expense	\$ 48,681	\$ 4,739	\$ 8,975
Included in:			
Cost of operations	\$ 11,280	\$	\$
Development and engineering	993		
Sales, marketing, general and administrative	32,682	4,880	7,860
Gain on sale of EBS	30		
Equity in earnings of EBS Master LLC	310		
Income from continuing operations	45,295	4,880	7,860
Income from discontinued operations, net of tax	3,386	(141)	1,115
Total stock-based compensation expense	\$ 48,681	\$ 4,739	\$ 8,975

No tax benefits were attributed to the stock-based compensation expense because a valuation allowance was maintained for substantially all net deferred tax assets. As of December 31, 2006, approximately \$40,709 and \$46,383 of unrecognized stock-based compensation expense related to unvested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of approximately 1.48 years and 2.04 years, related to the Plans and the WHC Plans, respectively.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes pro forma net income and net income per common share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (including non-cash stock-based compensation expense related to discontinued operations) for the years ended December 31, 2005 and 2004:

	<b>Years Ended December 31,</b>	
	<b>2005 (Restated)</b>	<b>2004 (Restated)</b>
Net income as reported	\$ 68,811	\$ 36,611
Add: Non-cash stock-based employee compensation expense included in reported net income	4,739	8,975
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(37,218)	(67,569)
Pro forma net income (loss)	\$ 36,332	\$ (21,983)
Net income (loss) per common share:		
Basic and diluted as reported	\$ 0.20	\$ 0.11
Basic pro forma	\$ 0.11	\$ (0.07)
Diluted pro forma	\$ 0.10	\$ (0.07)

**5. Business Combinations****2006 Acquisitions**

On December 15, 2006, the Company acquired, through WHC, all of the outstanding limited liability company interests of Subimo, LLC ( Subimo ), a privately held provider of healthcare decision support applications to large employers, health plans and financial institutions. The total purchase consideration for Subimo was approximately \$59,320, comprised of \$32,820 in cash paid at closing, net of cash acquired, \$26,000 of WHC equity and \$500 of estimated acquisition costs. Pursuant to the terms of the purchase agreement, WHC deferred the issuance of the \$26,000 of equity, equal to 640,930 shares of WHC Class A Common Stock (the Deferred Shares ), until December 2008. A portion of these shares may be further deferred until December 2010 subject to certain conditions. If the Deferred Shares have a market value that is less than \$24.34 per share in December 2008, then WHC will pay additional consideration equal to this shortfall, either in the form of WHC Class A Common Stock or cash, in its sole discretion. 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 \$47,911 and intangible assets subject to amortization of \$11,300 were recorded. The goodwill

and intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$9,000 relating to customer relationships with estimated useful lives of twelve years and \$2,300 relating to acquired technology with an estimated useful life of three years. The results of operations of Subimo have been included in the financial statements of the Company from December 15, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On September 11, 2006, the Company acquired, through WHC, the interactive medical education, promotion and physician recruitment businesses of Medsite, Inc. ( Medsite ). Medsite provides e-detailing services for pharmaceutical, medical device and healthcare companies, including program development, targeted recruitment and online distribution and delivery. In addition, Medsite provides educational programs to physicians. The total purchase consideration for Medsite was approximately \$31,467, comprised of \$30,682

**EMDEON CORPORATION**

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

in cash, net of cash acquired, and \$785 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 and intangible asset valuation, goodwill of \$33,948 and intangible assets subject to amortization of \$9,000 were recorded. The goodwill and intangible assets recorded will be deductible for tax purposes. The intangible assets are comprised of \$4,000 relating to customer relationships with estimated useful lives of twelve years, \$2,000 relating to a trade name with an estimated useful life of ten years, \$2,000 relating to content with an estimated useful life of five years and \$1,000 relating to acquired technology with an estimated useful life of three years. The results of operations of Medsite have been included in the financial statements of the Company from September 11, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On July 18, 2006, the Company acquired, through EBS, Interactive Payer Network, Inc. ( IPN ), a privately held provider of healthcare electronic data interchange services. The total purchase consideration for IPN was approximately \$3,907, comprised of \$3,799 in cash, net of cash acquired, and \$108 of estimated acquisition costs. In addition, the Company agreed to pay up to an additional \$3,000 in cash over a two-year period beginning in August 2007 if certain financial milestones are achieved. 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 \$3,692 was recorded. The goodwill recorded will be deductible for tax purposes. The IPN business is part of the EBS businesses that we sold on November 16, 2006. Accordingly, the results of operations of IPN have been included in the financial statements of the Company, specifically within the Emdeon Business Services segment, from July 18, 2006 (the closing date of the acquisition) through November 16, 2006 (the closing date of the EBS Sale). The obligation to pay up to \$3,000 in earnout payments was also transferred in connection with the EBS Sale and is no longer an obligation of the Company.

On June 13, 2006, the Company acquired, through WHC, Summex Corporation ( Summex ), a provider of health and wellness programs that include online and offline health risk assessments, lifestyle education and personalized telephonic health coaching. The total purchase consideration for Summex was approximately \$30,191, comprised of \$29,691 in cash, net of the cash acquired, and \$500 of estimated acquisition costs. In addition, the Company has agreed to pay up to an additional \$10,000 in cash over a two-year period if certain financial milestones are achieved. 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 \$20,147 and intangible assets subject to amortization of \$10,200 were recorded. The goodwill and intangible assets recorded will not be deductible for tax purposes. The intangible assets are comprised of \$4,000 relating to customer relationships with estimated useful lives of ten years, \$2,700 relating to acquired technology with an estimated useful life of three years, \$2,000 relating to content with an estimated useful life of four years and \$1,500 relating to a trade name with an estimated useful life of ten years. The results of operations of Summex have been included in the financial statements of the Company from June 13, 2006, the closing date of the acquisition, and are included in the WebMD segment.

On January 17, 2006, the Company acquired, through WHC, eMedicine.com, Inc. ( eMedicine ), a privately held online publisher of medical reference information for physicians and other healthcare professionals. The total purchase consideration for eMedicine was approximately \$25,195, comprised of \$24,495 in cash, net of cash acquired, and \$700 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 and intangible asset valuation, goodwill of

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$20,776 and an intangible asset subject to amortization of \$6,390 were recorded. The goodwill and intangible asset recorded will not be deductible for tax purposes. The intangible assets recorded were \$4,300 relating to content with an estimated useful life of three years, \$1,000 relating to acquired technology with an estimated useful life of three years, \$790 relating to a trade name with an estimated useful life of ten years and \$300 relating to customer relationships with estimated useful lives of ten years. The results of operations of eMedicine have been included in the financial statements of the Company from January 17, 2006, the closing date of the acquisition, and are included in the WebMD segment.

#### 2005 Acquisitions

On December 2, 2005, the Company acquired, through WHC, the assets of and assumed certain liabilities of Conceptis Technologies, Inc. ( Conceptis ), a privately held Montreal-based provider of online and offline medical education and promotion aimed at physicians and other healthcare professionals. The total purchase consideration for Conceptis was approximately \$19,859, comprised of \$19,256 in cash and \$603 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 and intangible asset valuation, goodwill of \$14,694 and intangible assets subject to amortization of \$6,140 were recorded. The goodwill and intangible assets recorded will be deductible for tax purposes. The intangible assets recorded were \$1,900 relating to content with an estimated useful life of two years, \$3,300 relating to acquired technology with an estimated useful life of three years and \$940 relating to a trade name with an estimated useful life of ten years. The results of operations of Conceptis have been included in the financial statements of the Company from December 2, 2005, the closing date of the acquisition, and are included in the WebMD segment.

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 for HealthShare was approximately \$29,985, comprised of \$29,533 in cash, net of cash acquired, and \$452 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 \$24,609 and intangible assets subject to amortization of \$8,500 were recorded. The goodwill and intangible assets recorded will not 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 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 for MedicineNet was approximately \$17,223, comprised of \$16,732 in cash, net of cash acquired, and \$491 of 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 exceeded certain thresholds for the year ended December 31, 2005. The Company paid \$7,250 in April 2006 as a result of these thresholds being met. 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. Excluding the anticipated contingent consideration payment discussed above, goodwill of \$9,991 and intangible assets subject to amortization of \$6,600 were recorded in connection with the initial

**EMDEON CORPORATION**

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

allocation of the purchase price. 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, \$300 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 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 for Esters was approximately \$3,333 comprised of \$3,160 in cash, net of cash acquired, and \$173 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 \$2,181 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 for RxList was approximately \$5,216 comprised of \$4,500 in cash at the time of acquisition, \$500 paid in 2006 and \$216 of acquisition costs. In addition, the Company 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 exceeded certain thresholds for each of the three month periods ended December 31, 2005 and 2006, respectively. The Company paid \$2,387 in February 2006 as a result of the achievement of those page views exceeding certain thresholds. The accrual resulted in an increase to goodwill. 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. Excluding the anticipated contingent consideration payment discussed above, goodwill of \$4,181 and an intangible asset subject to amortization of \$1,054 were recorded in connection with the initial allocation of the purchase price. The Company expects that substantially all of the goodwill and the intangible asset recorded will be deductible for tax purposes. The intangible asset is content with an estimated useful life of five years. The 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 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 separately reflected as an operating segment.

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**EMDEON CORPORATION**

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

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 at the time of acquisition, \$490 to be paid over five years, of which \$90 was paid during 2005 and an additional \$100 was paid during 2006, 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 and 2006 in connection with the first and second earn out year ending March 2005 and 2006, respectively (See Note 12 for additional information). 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 initial 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 Dakota business is part of the EBS businesses that were sold on November 16, 2006. Accordingly, the results of operations of Dakota have been included in the financial statements of the Company, specifically within the EBS segment, from April 30, 2004 (the closing date of the acquisition) through November 16, 2006 (the closing date of the EBS Sale).

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Balance Sheet Data

The following table summarizes the tangible and intangible assets acquired, the liabilities assumed and the consideration paid for each acquisition:

	Accounts Receivable	Deferred Revenue	Other Tangible Assets (Liabilities), net	Intangible Assets	Goodwill	Total Purchase Price
<b>2006</b>						
Subimo	\$ 1,725	\$ (6,900)	\$ 5,284	\$ 11,300	\$ 47,911	\$ 59,320
Medsite	2,469	(13,124)	(826)	9,000	33,948	31,467
IPN	358		(143)		3,692	3,907
Summex	1,064	(1,173)	(47)	10,200	20,147	30,191
eMedicine	1,717	(2,612)	(1,076)	6,390	20,776	25,195
<b>2005</b>						
Conceptis	2,893	(2,866)	(1,002)	6,140	14,694	19,859
HealthShare	1,925	(4,622)	(427)	8,500	24,609	29,985
<b>2004</b>						
MedicineNet	1,081	(64)	(385)	6,600	17,241	24,473
Esters	151		(199)	1,200	2,181	3,333
RxList			(19)	1,054	6,568	7,603
ViPS	12,573	(5,436)	4,198	84,000	71,253	166,588
Epor			23	200	2,324	2,547
Dakota	2,587	(3,894)	(553)	13,100	28,266	39,506

## Unaudited Pro Forma Information

The following unaudited pro forma financial information for the years ended December 31, 2006 and 2005 gives effect to the acquisitions of Conceptis, HealthShare, Subimo, Medsite, IPN, Summex and eMedicine, including the amortization of intangible assets, as if the acquisitions had occurred on January 1, 2005. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions 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.

	Years Ended December 31,	
	2006 (Restated)	2005 (Restated)
Revenue	\$ 1,123,469	\$ 1,073,797

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Income from continuing operations	393,332	42,686
Net income	764,392	58,951
Basic income per common share:		
Income from continuing operations	\$ 1.41	\$ 0.12
Net income	\$ 2.74	\$ 0.17
Diluted income per common share:		
Income from continuing operations	\$ 1.24	\$ 0.12
Net income	\$ 2.36	\$ 0.17

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**EMDEON CORPORATION**

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

**6. WebMD Health Corp. Initial Public Offering; Relationships between the Company and WHC**

**Initial Public Offering**

In May 2005, the Company formed WHC as a wholly-owned subsidiary to act as a holding company for the business of the Company's WebMD segment and to issue shares in an initial public offering. In September 2005, the Company contributed to WHC the subsidiaries, the assets and the liabilities included in the Company's WebMD 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 of approximately \$129,142, net of underwriting discounts of \$9,721, which was retained by WHC to be used for working capital and general corporate purposes. Additionally, the Company incurred approximately \$5,800 of legal, accounting, printing and other expenses related to the offering.

**Minority Interest**

The Company owned, on December 31, 2006 and 2005, the 48,100,000 shares of WHC Class B Common Stock that it owned at the time of the initial public offering, representing ownership of 84.6% and 85.8%, respectively, 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. As a result, the WHC Class B Common Stock owned by the Company represented, as of December 31, 2006 and 2005, 96.5% and 96.7%, respectively, of the combined voting power of WHC's outstanding Common Stock. Each share of 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 to any 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.

As of December 31, 2006 and 2005, the minority stockholders' proportionate share of the equity in WHC of \$101,860 and \$43,096, respectively, is reflected as Minority Interest in WHC in the accompanying consolidated balance sheets. The minority stockholders' proportionate share of net income for the years ended December 31, 2006 and 2005 was \$405 and \$775, respectively.

**Relationships between the Company and WHC**

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. On January 31, 2006, the Company entered into additional agreements with WHC in which both parties agreed to support each other's product development and marketing efforts of specific product lines for agreed upon fees, as defined in the

agreements. These agreements were amended, in connection with the EPS Sale and EBS Sale, to separate the provisions applicable to each of Emdeon, EPS and EBS and to make certain modifications in the relationships between WebMD and each of those parties. In amended agreements with WebMD, EPS agreed to continue its strategic relationship with WebMD and to integrate WebMD's personal health record with the clinical

## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

products of EPS, including the electronic medical record, to allow import of data from one to the other, subject to applicable law and privacy and security requirements. In amended agreements with WebMD, EBS agreed to continue its strategic relationship with WebMD and to market WebMD's online decision-support platform and tools that support consumer directed health plans and health savings accounts to its payer customers for integration into their consumer directed health offerings. In addition, EBS agreed to license certain de-identified data to Emdeon and its subsidiaries, including WebMD, for use in the development and commercialization of certain applications that use clinical information, including consumer decision-support applications.

On February 15, 2006, the Company amended the Tax Sharing Agreement with WHC. Under the amended Tax Sharing Agreement, the Company agreed to reimburse WHC, at the current federal statutory tax rate of 35%, for net operating loss carryforwards attributable to WHC that are utilized by the Company as a result of certain types of extraordinary transactions, as defined in the Tax Sharing Agreement, which includes the EPS Sale and EBS Sale. During February 2007, the Company reimbursed WHC \$140,000 as an estimate of the payment required pursuant to the Tax Sharing Agreement with respect to the EPS Sale and the EBS Sale which amount is subject to adjustment in connection with the filing of the applicable tax returns. This cash reimbursement resulted in an increase to minority interest and a decrease to additional paid-in-capital of \$22,342, reflecting the portion of the \$140,000 transfer that related to the minority interest shareholders.

#### Gain Upon Sale of WHC Class A Common Stock

In connection with the initial public offering on September 28, 2005, the Company recorded a gain on the sale of WHC Class A Common Stock in the amount of approximately \$82,275, which was reflected as an adjustment to additional paid-in capital in accordance with SAB 51. As a result of the sale of WHC Class A Common Stock at the time of the initial public offering, the Company's ownership of WHC was reduced to 85.8%.

During the year ended December 31, 2006, the Company recorded an aggregate SAB 51 gain to equity of \$5,152 in connection with the issuance of WHC Class A Common Stock, in connection with stock option exercises, restricted stock releases and annual board retainers discussed in Note 4.

Also during 2006, WHC purchased Subimo for cash and \$26,000 of WHC equity (see Note 5). Pursuant to the terms of the purchase agreement, the \$26,000 of WHC equity, equal to 640,930 shares of WHC Class A Common Stock, will not be issued until December 2008, subject to certain conditions. While a maximum of 246,508 of these shares may be used to settle any outstanding claims or warranties against the sellers, the remaining 394,422 of these shares will be issued with certainty. Accordingly, the Company recorded an additional SAB 51 gain to equity of \$11,627, in connection with the issuance of these 394,422 shares.

As a result of the issuance of the WHC Class A Common Stock in 2006, the Company's ownership percentage in WHC decreased from 85.8% to 84.6%.

#### 7. Significant Transactions

##### America Online, Inc.

In May 2001, the Company entered into an agreement for a strategic alliance with Time Warner, Inc. (Time Warner). Under the agreement, the Company is the primary provider of healthcare content, tools and services for use on certain

America Online properties. The Company and AOL share certain revenue from advertising, commerce and programming on the health channels of the AOL properties and on a co-branded service created for AOL by the Company, with the Company receiving 80% of revenues up to an agreed-upon annual threshold and 60% thereafter. In connection with the strategic alliance, the Company issued to Time Warner a warrant to purchase 2,408,908 shares of Emdeon's common stock at an exercise price of \$9.25 per share. The warrant was valued at approximately \$17,500 using the Black-Scholes option pricing model and

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

was amortized through May 2004, the original term of the strategic alliance, as a non-cash distribution expense included in sales, marketing, general and administrative expense.

The Company had the right to extend the original agreement for an additional three-year term if the Company's revenue share did not exceed certain thresholds during the original three-year term. These thresholds were not met and the Company exercised its right to extend the contract term until May 2007. Under the terms of the extension, the Company is entitled to share in revenues and is guaranteed a minimum of \$12,000 during each year of the renewal term for its share of advertising revenues. Included in the accompanying consolidated statement of operations during 2006, 2005 and 2004 is revenue of \$8,312, \$7,805 and \$7,242, respectively, which represents sales to third parties of advertising and sponsorship on the AOL health channels, primarily sold through the Company's sales team. Also included in revenue during 2006, 2005 and 2004 is revenue of \$5,125, \$5,951 and \$3,754, respectively, related to such guarantee.

#### News Corporation

In connection with the strategic relationship with News Corporation entered into in 2000 and amended in 2001, the Company received the rights to an aggregate of \$205,000 of advertising services from News Corporation to be used over ten years expiring in 2010 in exchange for equity securities of the Company. The amount of advertising services received in any contract year is based on the current market rates in effect at the time the advertisement is placed. Additionally, the amount of advertising services that can be used in any contract year is subject to contract limitations. The advertising services were recorded at fair value determined using a discounted cash flow methodology. Also as part of the same relationship the Company licensed its content to News Corporation for use across News Corporation's media properties for four years, ending in January 2005, for cash payments totaling \$12,000 per contract year. The remaining current and long-term portions of the prepaid advertising services are included in prepaid expenses and other current assets, and other assets, respectively, in the accompanying consolidated balance sheets.

#### 8. Restructuring and Integration Charges

After the mergers with Medical Manager Corporation, CareInsite, Inc. and OnHealth Network Company in September 2000, the Company's Board of Directors approved a restructuring and integration plan, with the objective of eliminating duplication and redundancies that resulted from these and certain prior acquisitions and consolidating the Company's operational infrastructure into a common platform. The Company's restructuring and integration efforts continued in 2001, which included eliminating functions resulting from the Company's acquisition of Medscape and restructuring certain strategic relationships the Company had with third parties.

In 2004, the Company recorded an incremental restructuring charge, with respect to the 2000 restructuring plan, of \$4,535 in connection with the settlement of a lawsuit against the landlord of a property that the Company leased in 2000, but never occupied, for its then Santa Clara, California operations. The remainder of the settlement cost was previously expensed as part of the 2000 restructuring plan. Under the terms of the settlement, the original lease was terminated and the Company made payments of approximately \$24,409. In addition during 2004, the Company made cash payments of \$4,618 related to its remaining 2000 and 2001 restructuring plans.

As of December 31, 2006 and 2005, the Company did not have any remaining obligations related to its 2000 and 2001 restructuring plans.

**9. 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/

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Emdeon'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 Emdeon's Common Stock is at least \$13.16 per share, 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 liquidation preference of the Preferred Stock, payable in cash or, at the Company's option, in shares of Emdeon's Common Stock. If Emdeon'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. Additionally, the holders of the Preferred Stock may require the Company to repurchase the Preferred Stock upon a change in control of the Company at a price equal to the liquidation preference of the Preferred Stock, payable in cash.

If the average closing sales price of Emdeon'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 Emdeon's 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 Emdeon's 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 Emdeon'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. In 2006, 2005 and 2004, \$235, \$234 and \$184, respectively, were recorded to accretion of convertible redeemable exchangeable preferred stock, included within stockholders equity.

#### 10. 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

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## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

will also pay contingent interest of 0.25% per annum to the holders of the 31/8% Notes during specified six-month periods, commencing with the six-month period beginning on September 1, 2012, if the average trading price of a 31/8% Note for the specified period equals 120% or more of the principal amount of the 31/8% Note.

The 31/8% 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). Holders of the 31/8% Notes may require the Company to repurchase their 31/8% Notes on September 1, 2012, September 1, 2015 and September 1, 2020, at a price equal to 100% of the principal amount of the 31/8% Notes being repurchased, plus any accrued and unpaid interest, payable in cash. Additionally, the holders of the 31/8% Notes may require the Company to repurchase the 31/8% Notes upon a change in control of the Company at a price equal to 100% of the principal amount of the 31/8% 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 31/8% 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.

#### **\$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 Emdeon's Common Stock (representing a conversion price of \$15.39 per share) if the sale price of Emdeon'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 Emdeon'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 may require the Company to repurchase their 1.75% Notes for, at the Company's option, cash or shares of Emdeon's Common Stock, or a combination thereof, at a price equal to 100% of the principal amount of the 1.75% Notes being repurchased.

#### **\$300,000 31/4% Convertible Subordinated Notes due 2007**

On April 1, 2002, the Company issued \$300,000 aggregate principal amount of 31/4% Convertible Subordinated Notes due 2007 (the 31/4% Notes) in a private offering. Interest on the 31/4% Notes accrued at the rate of 31/4% per annum and was payable semiannually on April 1 and October 1. At the time of issuance, the 31/4% Notes were convertible into an aggregate of approximately 32,386,916 shares of Emdeon'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 31/4% Notes was converted into 107 shares of Emdeon'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. Prior to the redemption, the holders of the 3 1/4% Notes converted a total of \$214,880 principal amount of the

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

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. In connection with this transaction, the Company wrote-off the remaining unamortized portion of its deferred issuance costs related to the 3 1/4% Notes of \$2,854, of which \$2,009 was reflected as a reduction to additional paid-in capital, representing the portion related to the 3 1/4% Notes converted by the holders. The write-off of the remaining unamortized deferred issuance costs related to the portion of the 3 1/4% Notes that was redeemed, 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.

**11. Segment Information**

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information ( SFAS 131 ). The accounting policies of the segments are the same as the accounting policies for the consolidated Company. Inter-segment revenue primarily represents printing services provided by the Company's Emdeon Business Services segment and certain services provided by the Company's WebMD segment to the Company's other operating segments. The performance of the Company's business is monitored based on earnings before interest, taxes, non-cash and other items. Non-cash and other items include: legal expenses which reflect costs and expenses related to the investigation by the United States Attorney for the District of South Carolina and the SEC ( Legal expense ); professional fees, primarily consisting of legal, accounting and financial advisory services, related to the EBS Sale; a gain on sale of a 52% interest in the EBS segment ( Gain on sale of EBS ); equity in earnings of EBS Co, which represents Emdeon's 48% portion of EBS's income ( Equity in earnings of EBS Master LLC ); a charge related to the redemption of \$300,000 3 1/4% Convertible Subordinated Notes; minority interest in the Company's consolidated WebMD segment; non-cash advertising expense related to advertising acquired in exchange for the Company's equity securities; costs and expenses related to the settlement of litigation in 2005; and non-cash stock-based compensation expense, which relates to stock options issued and assumed in connection with acquisitions and restricted stock issued to employees and, beginning January 1, 2006, includes the incremental non-cash stock-based compensation expense associated with the adoption of SFAS 123R.

*Reclassification of Segment Information.* In connection with the EPS Sale and related reclassification of that operating segment to discontinued operations, the Company has reclassified certain expenses related to activities that were previously managed, and therefore reported, within the Corporate and EBS segments, to the discontinued EPS segment, as these expenses will not be incurred by the continuing operations of the Company. These expenses were reclassified for the current and comparable prior year periods. The expenses which were reclassified to the discontinued EPS segment aggregated \$924, \$1,750 and \$1,837 in 2006, 2005 and 2004, respectively.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Years Ended December 31,		
	2006(a) (Restated)	2005 (Restated)	2004 (Restated)
<b>Revenue</b>			
Emdeon Business Services	\$ 661,090	\$ 689,305	\$ 682,100
WebMD	253,881	168,238	134,317
ViPS	98,874	90,313	24,693
Porex	85,702	79,124	77,099
Inter-segment eliminations	(939)	(505)	(112)
	\$ 1,098,608	\$ 1,026,475	\$ 918,097
<b>Earnings before interest, taxes, non-cash and other items</b>			
Emdeon Business Services	\$ 152,911	\$ 138,529	\$ 128,361
WebMD	53,079	27,546	26,307
ViPS	20,529	16,913	4,277
Porex	24,974	22,524	22,650
Corporate	(43,414)	(49,481)	(50,758)
	208,079	156,031	130,837
<b>Interest, taxes, non-cash and other items</b>			
Depreciation and amortization	(61,976)	(60,905)	(48,707)
Non-cash stock-based compensation	(44,955)	(4,880)	(7,860)
Non-cash advertising and distribution	(7,414)	(10,870)	(18,826)
Legal expense	(2,578)	(17,835)	(9,230)
Interest income	32,339	21,527	18,716
Interest expense	(18,779)	(16,322)	(19,251)
Income tax provision	(52,316)	(3,295)	(6,946)
Minority interest in WHC	(405)	(775)	
Equity in earnings of EBS Master LLC	763		
Gain on sale of EBS	352,297		
(Loss) gain on investments		(6,365)	457
Other expense	(4,198)	(3,765)	(4,535)
Income from continuing operations	400,857	52,546	34,655
Income from discontinued operations, net of tax	371,060	16,265	1,956
Net income	\$ 771,917	\$ 68,811	\$ 36,611

(a) The EBS segment was sold on November 16, 2006 and, therefore, the operations of the EBS segment are included only for the period January 1, 2006 through November 16, 2006.

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table represents supplemental financial data for the Company's segments:

	<b>Emdeon Business</b>				<b>Corporate and Other(a)</b>	<b>Total</b>
	<b>Services</b>	<b>WebMD</b>	<b>ViPS</b>	<b>Porex</b>		
<b>2006</b>						
Products revenue	\$ 6,987	\$ 8,087	\$	\$ 85,702	\$ (420)	\$ 100,356
Services revenue	654,103	245,794	98,874		(519)	998,252
Capital expenditures	20,835	28,452	2,594	2,871	133	54,885
Total assets		475,184	156,465	131,794	688,500	1,451,943
<b>2005</b>						
Products revenue	8,734	7,828		77,924	(284)	94,202
Services revenue	680,571	160,410	90,313	1,200	(221)	932,273
Capital expenditures	28,808	18,126	1,305	2,330	307	50,876
Total assets	964,398	376,889	165,424	122,228	566,744	2,195,683
<b>2004</b>						
Products revenue	9,117	7,192	488	75,999	(104)	92,692
Services revenue	672,983	127,125	24,205	1,100	(8)	825,405
Capital expenditures	20,359	4,321		4,825	124	29,629

(a) Included in the Corporate column are the following: i) eliminations of inter-segment revenue transactions, ii) the assets of discontinued operations for 2005, and iii) all cash and cash equivalents of all U.S. based facilities, except for cash and cash equivalents of WebMD.

Revenue generated from foreign customers of the continuing operations of the Company's Porex segment was \$42,400, \$38,254 and \$33,315 in 2006, 2005 and 2004, respectively. Long-lived assets based in foreign facilities were \$13,448 and \$17,253 as of December 31, 2006 and 2005, respectively.

## 12. Long-Lived Assets

### *Property and Equipment*

Property and equipment consist of the following:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Computer equipment	\$ 21,797	\$ 60,336
Land and buildings	14,901	14,123

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Office equipment, furniture and fixtures	28,782	50,643
Software and Web site development costs	30,856	36,487
Leasehold improvements	14,391	17,904
Construction in process	5,379	11,616
	116,106	191,109
Less: accumulated depreciation	(44,066)	(95,423)
Property and equipment, net	\$ 72,040	\$ 95,686

Depreciation expense was \$28,064, \$28,008 and \$24,232 in 2006, 2005 and 2004, respectively.

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Goodwill and Intangible Assets*

SFAS No. 141, Business Combinations ( SFAS 141 ) requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. It also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. SFAS 142 requires that goodwill and certain intangibles no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 144. Based on the Company's analysis, there was no impairment of goodwill in connection with the annual impairment tests that were performed during the years ended December 31, 2006, 2005 and 2004.

The changes in the carrying amount of goodwill during the years ended December 31, 2006 and 2005 were as follows:

	<b>Emdeon Business Services</b>	<b>WebMD</b>	<b>ViPS</b>	<b>Porex</b>	<b>Total</b>
Balance as of January 1, 2005	\$ 663,018	\$ 53,169	\$ 71,449	\$ 43,384	\$ 831,020
Acquisitions during the period		36,079			36,079
Contingent consideration for prior period acquisitions	19,379	10,638			30,017
Tax reversals	(674)			(600)	(1,274)
Adjustments to finalize purchase price allocations	(111)	783	(196)	383	859
Effects of exchange rates				(726)	(726)
Balance as of January 1, 2006	681,612	100,669	71,253	42,441	895,975
Acquisitions during the period	3,692	122,782			126,474
Contingent consideration for prior period acquisitions (a)	(1,913)				(1,913)
Tax reversals (b)	(40,522)	(1,636)		(298)	(42,456)
Adjustments to finalize purchase price allocations		1,669			1,669
Sale of EBS	(642,869)				(642,869)
Effects of exchange rates				789	789
Balance as of December 31, 2006	\$	\$ 223,484	\$ 71,253	\$ 42,932	\$ 337,669

(a) The Company adjusted goodwill by \$2,539 in connection with an over accrual of contingent consideration in the Emdeon Business Services segment. In addition, the Company made a contingent consideration payment in the amount of \$626 for a 2003 acquisition within the Emdeon Business Services segment.



(b) Represents a reduction to goodwill 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. A portion of these income tax valuation allowances, or \$11,752, was reversed in connection with the utilization of net operating losses attributable to the discontinued operations, including the gain on disposal.

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets subject to amortization consist of the following:

	December 31, 2006				December 31, 2005			
	Gross	Accumulated	Net	Weighted	Gross	Accumulated	Net	Weighted
	Carrying	Amortization		Average	Carrying	Amortization		Average
Amount			Remaining	Amount			Remaining	Remaining
			Useful	Useful			Useful	Useful
			Life(a)	Life(a)			Life(a)	Life(a)
Customer relationships	\$ 68,168	\$ (13,300)	\$ 54,868	11.1	\$ 382,877	\$ (242,494)	\$ 140,383	11.3
Technology and patents	79,221	(27,453)	51,768	17.1	176,146	(110,244)	65,902	15.3
Trade names	18,216	(4,443)	13,773	8.0	40,716	(30,435)	10,281	8.0
Non-compete agreements, content and other	17,054	(7,990)	9,064	2.6	22,254	(3,549)	18,705	6.7
Total	\$ 182,659	\$ (53,186)	\$ 129,473	12.6	\$ 621,993	\$ (386,722)	\$ 235,271	11.9

(a) The calculation of the weighted average remaining useful life is based on the net book value and the remaining amortization period (reflected in years) of each respective intangible asset.

Amortization expense was \$33,912, \$32,897 and \$24,475 in 2006, 2005 and 2004, respectively. Aggregate amortization expense for intangible assets is estimated to be:

**Years Ending December 31,**

2007	\$ 24,441
2008	21,034
2009	15,008
2010	7,647
2011	6,884
Thereafter	54,459

**13. Accrued Expenses**

Accrued expenses consist of the following:

**December 31,**  
**2006                      2005**

Accrued outside services	\$ 18,835	\$ 11,926
Accrued acquisition contingent consideration		30,122
Accrued compensation	28,504	35,276
Accrued customer deposits	139	21,570
Accrued income, sales and other taxes	35,048	20,678
Other accrued liabilities	30,649	50,530
	\$ 113,175	\$ 170,102

#### 14. Commitments and Contingencies

##### Legal Proceedings

##### *Investigations by United States Attorney for the District of South Carolina and the SEC*

As previously disclosed, the United States Attorney for the District of South Carolina is conducting an investigation of the Company, which the Company first learned about on September 3, 2003. Based on the

## EMDEON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

information available to the Company, it believes that the investigation relates principally to issues of financial accounting improprieties relating to Medical Manager Corporation, a predecessor of the Company (by its merger into the Company in September 2000), and, more specifically, its Medical Manager Health Systems, Inc. subsidiary. Medical Manager Health Systems was a predecessor to Emdeon Practice Services, Inc., a subsidiary that the Company sold to Sage Software in September 2006. The Company has been cooperating and intends to continue to cooperate fully with the U.S. Attorney's Office. As previously reported, the Board of Directors of the Company has formed a special committee consisting solely of independent directors to oversee this matter with the sole authority to direct the Company's response to the allegations that have been raised.

The United States Attorney for the District of South Carolina announced on January 10, 2005, that three former employees of Medical Manager Health Systems each had agreed to plead guilty to one count of mail fraud and that one such employee had agreed to plead guilty to one count of tax evasion for acts committed while they were employed by Medical Manager Health Systems. The three former employees include a Vice President of Medical Manager Health Systems responsible for acquisitions who was terminated for cause in January 2003; an executive who served in various accounting roles at Medical Manager Health Systems until his resignation in March 2002; and a former independent Medical Manager dealer who was a paid consultant to Medical Manager Health Systems until the termination of his services in 2002. According to the Informations, Plea Agreements and Factual Summaries filed by the United States Attorney in, and available from, the District Court of the United States for the District of South Carolina - Beaufort Division, on January 7, 2005, the three former employees and other then unnamed co-schemers were engaged in schemes between 1997 and 2002 that included causing companies acquired by Medical Manager Health Systems to pay the former vice president in charge of acquisitions and co-schemers kickbacks which were funded through increases in the purchase price paid by Medical Manager Health Systems to the acquired companies and that included fraudulent accounting practices to inflate artificially the quarterly revenues and earnings of Medical Manager Health Systems when it was an independent public company called Medical Manager Corporation from 1997 through 1999, when and after it was acquired by Syntec, Inc. in July 1999 and when and after it became a subsidiary of the Company in September 2000. A fourth former officer of Medical Manager Health Systems pleaded guilty to similar activities later in 2005.

The fraudulent accounting practices cited by the government in the January 7, 2005 District Court filings included: causing companies acquired by Medical Manager Health Systems to reclassify previously recognized sales revenue as deferred income so that such deferred income could subsequently be reported as revenue by Medical Manager Health Systems and its parents in later periods; fabricating deferred revenue entries which could be used to inflate earnings when Medical Manager Health Systems acquired companies; causing companies acquired by Medical Manager Health Systems to inflate reserve accounts so that these reserves could be reversed in later reporting periods in order to artificially inflate earnings for Medical Manager Health Systems and its parents; accounting for numerous acquisitions through the pooling of interests method in order to fraudulently inflate Medical Manager Health Systems' quarterly earnings, when the individuals involved knew the transactions failed to qualify for such treatment; causing companies acquired by Medical Manager Health Systems to enter into sham purchases of software from Medical Manager Health Systems in connection with the acquisition which purchases were funded by increasing the purchase price paid by Medical Manager Health Systems to the acquired company and using these "round trip" sales to create fraudulent revenue for Medical Manager Health Systems and its parents; and causing Medical Manager Health Systems to book and record sales and training revenue before the revenue process was complete in accordance with Generally Accepted Accounting Principles and thereby fraudulently inflating Medical Manager Health Systems reported revenues and earnings. According to the Informations to which the former employees have plead guilty, the fraudulent accounting practices resulted in the reported revenues of Medical Manager Health Systems and its parents being overstated materially between June 1997 and at least December 31, 2001, and reported quarterly earnings being

overstated by at least one cent per share in every quarter during that period.

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**EMDEON CORPORATION**

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

The documents filed by the United States Attorney in January 2005 stated that the former employees engaged in their fraudulent conduct in concert with senior management, and at the direction of senior Medical Manager officers. In its statement at that time, the United States Attorney for the District of South Carolina stated that the senior management and officers referred to in the Court documents were members of senior management of the Medical Manager subsidiary during the relevant time period.

On December 15, 2005, the United States Attorney announced indictments of the following former officers and employees of Medical Manager Health Systems: Ted W. Dorman, a former Regional Vice President of Medical Manager Health Systems, who was employed until March 2003; Charles L. Hutchinson, a former Controller of Medical Manager Health Systems, who was employed until June 2001; Maxie L. Juzang, a former Vice President of Medical Manager Health Systems, who was employed until August 2005; John H. Kang, a former President of Medical Manager Health Systems, who was employed until May 2001; Frederick B. Karl, Jr., a former General Counsel of Medical Manager Health Systems, who was employed until April 2000; Franklyn B. Krieger, a former Associate General Counsel of Medical Manager Health Systems, who was employed until February 2002; Lee A. Robbins, a former Vice President and Chief Financial Officer of Medical Manager Health Systems, who was employed until September 2000; John P. Sessions, a former President and Chief Operating Officer of Medical Manager Health Systems, who was employed until September 2003; Michael A. Singer, a former Chief Executive Officer of Medical Manager Health Systems and a former director of the Company, who was most recently employed by the Company as its Executive Vice President, Physician Software Strategies until February 2005; and David Ward, a former Vice President of Medical Manager Health Systems, who was employed until June 2005. The indictment charges the persons listed above with conspiracy to commit mail, wire and securities fraud, a violation of Title 18, United States Code, Section 371 and conspiracy to commit money laundering, a violation of Title 18, United States Code, Section 1956(h). The indictment charges Messrs. Sessions and Ward with substantive counts of money laundering, violations of Title 18, United States Code, Section 1957. The allegations set forth in the indictment describe activities that are substantially similar to those described above with respect to the January 2005 plea agreements.

On February 27, 2007, the United States Attorney filed a Second Superseding Indictment with respect to the former officers and employees of Medical Manager Health Systems charged under the prior Indictment, other than Mr. Juzang. The allegations set forth in the Second Superseding Indictment are substantially similar to those described above.

Based on the information it has obtained to date, including that contained in the court documents filed by the United States Attorney in South Carolina, the Company does not believe that any member of its senior management whose duties were not primarily related to the operations of Medical Manager Health Systems during the relevant time periods engaged in any of the violations or improprieties described in those court documents. The Company understands, however, that in light of the nature of the allegations involved, the U.S. Attorney's office has been investigating all levels of the Company's management. The Company has not uncovered information that it believes would require a restatement for any of the years covered by its financial statements. In addition, the Company believes that the amounts of the kickback payments referred to in the court documents have already been reflected in the financial statements of the Company to the extent required.

As previously disclosed, the Company understands that the SEC is also conducting a formal investigation into this matter.

While the Company is not able to estimate, at this time, the amount of the expenses that it will incur in connection with the investigations, it is possible that they may continue to be significant. In connection with the EPS Sale, the Company agreed to indemnify Sage Software with respect to this matter.

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**EMDEON CORPORATION**

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

*Litigation Regarding Distribution of Shares in Healtheon Initial Public Offering*

As previously disclosed, seven purported class action lawsuits were filed against Morgan Stanley & Co. Incorporated and Goldman Sachs & Co., underwriters of the initial public offering of the Company (then known as Healtheon Corporation) in United States District Court for the Southern District of New York in the summer and fall of 2001. Three of these suits also named the Company and certain of its former officers and directors as defendants. These suits were filed in the wake of reports of governmental investigations of the underwriters' practices in the distribution of shares in certain initial public offerings. Similar suits were filed in connection with over 300 other initial public offerings that occurred in 1999, 2000 and 2001.

The complaints against the Company and its former officers and directors alleged violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 under that Act and Section 11 of the Securities Act of 1933 because of failure to disclose certain practices alleged to have occurred in connection with the distribution of shares in the Healtheon IPO. Claims under Section 12(a)(2) of the Securities Act of 1933 were also brought against the underwriters. These claims were consolidated, along with claims relating to over 300 other initial public offerings, in the Southern District of New York. The plaintiffs have dismissed the claims against the four former officers and directors of the Company without prejudice, pursuant to Reservation of Rights Tolling Agreements with those individuals. On July 15, 2002, the issuer defendants in the consolidated action, including the Company, filed a joint motion to dismiss the consolidated complaints. On February 18, 2003, the District Court denied, with certain exceptions not relevant to the Company, the issuer defendants' motion to dismiss.

After a lengthy mediation under the auspices of former United States District Judge Nicholas Politan, the issuer defendants in the consolidated action (including the Company), the affected insurance companies, and the plaintiffs reached an agreement on a settlement to resolve the matter among the participating issuer defendants, their insurers, and the plaintiffs. The settlement calls for the participating issuers' insurers jointly to guarantee that plaintiffs recover a certain amount in the IPO litigation and certain related litigation from the underwriters and other non-settling defendants. Accordingly, in the event the guarantee becomes payable, the agreement calls for the Company's insurance carriers, not the Company, to pay the Company's pro rata share.

The Company and virtually all of the approximately 260 other issuer defendants who are eligible have also elected to participate in the settlement. Although the Company believes that the claims alleged in the lawsuits were primarily directed at the underwriters and, as they relate to the Company, were without merit, the Company believes that the settlement is beneficial to the Company because it reduces the time, expense and risks of further litigation, particularly since virtually all the other issuer defendants elected to participate and the Company's insurance carriers strongly support the settlement.

On June 10, 2004, plaintiffs submitted to the court a Stipulation and Agreement of Settlement with Defendant Issuers and Individuals. On February 15, 2005, the court certified the proposed settlement class and preliminarily approved the settlement, subject to certain modifications, to which the parties agreed. On April 24, 2006, the court held a hearing for final approval of the settlement.

On October 13, 2004, the court certified a class in six related "focus cases" of the 310 consolidated actions, and the underwriter defendants appealed to the Second Circuit Court of Appeals. On December 5, 2006, the Second Circuit reversed the district court's certification of the classes in the focus cases and remanded the matter for further proceedings. The plaintiffs petitioned for rehearing, and the Second Circuit is considering that petition. It is unclear



what effect the Second Circuit's decision will have on the settlement, final approval of which remains pending. The district court indicated that it does not intend to act on final approval of the settlement until after the Second Circuit rules on the petition for rehearing.

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**EMDEON CORPORATION**

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

***Dakota Imaging, Inc. v. Sandeep Goel and Pradeep Goel***

In April 2004, the Company, through its Emdeon Business Services segment, acquired Dakota Imaging, Inc. ( Dakota ). On April 6, 2005, Dakota, then a subsidiary of the Company, terminated for cause the employment of its President, Sandeep Goel, and its Chief Operating Officer/Chief Technology Officer, Pradeep Goel. On the same day, Dakota filed suit against the Goels in the Court of Chancery in Delaware for breach of their employment agreements. The Goels removed the case to the United States District Court for the District of Delaware and filed counterclaims against Dakota, Envoy Corporation ( Envoy ) (then another subsidiary of the Company), and the Company. The counterclaims sought approximately \$25,000 in damages as a result of the alleged improper interference with the Goel s right to receive contingent earnout payments under the merger agreement pursuant to which Envoy acquired Dakota and for breach of their employment agreements. Dakota, Envoy and the Company all filed motions to dismiss the counterclaims. Envoy also initiated an arbitration pursuant to the merger agreement to determine that the former stockholders of Dakota were not entitled to any contingent payments for the first year of the earnout period. In December 2006, the arbitrator issued a written decision in favor of Envoy, determining that the Goels were not entitled to any first year earnout payment. In connection with the EBS Sale, the Company has agreed to indemnify EBSCo with respect to this matter.

***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 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, and 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 also seek punitive damages and expenses of litigation. On February 13, 2006, the Court granted a motion by Micropore for summary judgment with respect to Porex s trade secret claims, ruling that those claims are barred by the statute of limitations. Porex has appealed that ruling to the Georgia Court of Appeals, and its appeal remains pending. Porex is continuing to pursue its breach of contract claims, but discovery regarding those contract claims has been stayed pending a resolution of the appeal regarding Porex s trade secret claims.

***Ari Weitzner, M.D., P.C. et al. v. National Physicians Datasource LLC***

As previously disclosed, on May 24, 2005, Dr. Ari Weitzner individually, and as a class action, filed a lawsuit under the Telephone Consumer Protection Act (the TCPA ), in the U.S. District Court, Eastern District of New York, against National Physicians Datasource LLC ( NPD ), which is currently a subsidiary of WHC. The lawsuit claimed that faxes allegedly sent by NPD, which publishes *The Little Blue Book*, were sent in violation of the TCPA. The plaintiff voluntarily dismissed the suit, with prejudice, on November 8, 2006.

***Anthony Vlastaris, et al. v. WebMD Publishing Services***

On September 25, 2006, Anthony Vlastaris, Brian Kressin, and Richard Cohen filed a lawsuit individually, and as a class action, under the TCPA, in the Ohio Court of Common Pleas, Cuyahoga County. The lawsuit claimed that the defendant sent faxes to the plaintiffs allegedly in violation of the TCPA. The defendant in the suit was named as

WebMD Publishing Services, an entity that does not exist. Because the suit was served on NPD at its location in Connecticut and because NPD is the publisher of *The Little Blue Book*, NPD responded by removing the lawsuit to the United States District Court, Northern District Court

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

of Ohio, on October 24, 2006. After removal to federal court, the plaintiffs voluntarily dismissed the class-action complaint and refiled a new suit in state court that was not a class action. NPD then settled the suit with the plaintiffs on December 28, 2006. The suit has been dismissed.

***Other Legal Proceedings***

In the normal course of business, the Company is involved in various other claims and legal proceedings. While the ultimate resolution of these matters, and those discussed above, 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, results of operations or liquidity.

**Leases**

The Company leases its offices and other facilities under operating lease agreements that expire at various dates through 2015. Total rent expense for all operating leases was approximately \$15,949, \$16,231 and \$12,650 in 2006, 2005 and 2004, respectively. The Company recognizes rent expense on a straight-line basis, including predetermined fixed escalations, over the initial lease term including reasonably assured renewal periods, net of lease incentives, from the time that the Company controls the leased property. Leasehold improvements made at the inception of the lease are amortized over the shorter of useful life or lease term. Lease incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term as described above. Included in other long-term liabilities as of December 31, 2006 and 2005 was \$7,888 and \$8,559, respectively, related to lease incentives and the difference between rent expense and the rental amount payable for leases with fixed escalations.

Future minimum lease commitments under non-cancelable lease agreements at December 31, 2006 were as follows:

**Years Ending December 31,**

2007	\$ 11,580
2008	11,074
2009	8,237
2010	8,170
2011	6,612
Thereafter	15,197
Total minimum lease payments	\$ 60,870

**Other Contingencies**

The Company provides certain indemnification provisions within its license agreements to protect the other party from any liabilities or damages resulting from a claim of misappropriation or infringement by third parties relating to its products and services. The Company has not incurred a liability relating to any of these indemnification provisions in the past and management believes that the likelihood of any future payment relating to these provisions is unlikely. Therefore, the Company has not recorded a liability during any period for these indemnification provisions.

**15. Retirement Plans**

The Company maintains various defined contribution retirement plans covering substantially all of its employees. During 2005, the Company amended one of the defined contribution retirement plans to provide for Company matching contributions. Certain of these plans provide for discretionary contributions and, as a result of this amendment, substantially all of the plans provide for Company matching contributions. The

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**EMDEON CORPORATION**

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

Company has recorded expenses related to these plans of \$3,152, \$2,439 and \$754 for 2006, 2005 and 2004, respectively. These amounts exclude the portion reclassified to discontinued operations of \$641, \$869 and \$867 in 2006, 2005 and 2004, respectively.

**16. Stockholders Equity**

**Common Stock**

*Tender Offers*

On October 20, 2006, the Company commenced a tender offer to purchase shares of its common stock ( 2006 Tender Offer ). On December 4, 2006, the 2006 Tender Offer was completed and, as a result, the Company repurchased 129,234,164 shares of its common stock at a price of \$12.00 per share. The total cost of the 2006 Tender Offer was approximately \$1,552,120, which includes approximately \$1,309 of costs directly attributable to the purchase.

On November 23, 2005, the Company commenced a tender offer to purchase shares of its common stock ( 2005 Tender Offer ). On December 21, 2005, the 2005 Tender Offer was completed and, as a result, the Company repurchased 66,905,919 shares of its common stock at a price of \$8.20 per share. The total cost of the 2005 Tender Offer was approximately \$549,268, which includes approximately \$640 of costs directly attributable to the purchase.

*Stock Repurchase Programs*

Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

On January 23, 2006, the Company announced the authorization of a stock repurchase program (the 2006 Repurchase Program ), at which time the Company was authorized to use up to \$48,000 to purchase shares of its common stock, from time to time, in the open market, through block trades or in private transactions, depending on market conditions and other factors. On February 8, 2006, the maximum aggregate amount authorized for purchases under the 2006 Repurchase Program was increased to \$68,000 and was then further increased on March 28, 2006 to \$83,000. During 2006, 7,329,305 shares were repurchased under the 2006 Repurchase Program at a cost of approximately \$71,843. In December 2006, the Company terminated the 2006 Repurchase Program and announced a new stock repurchase program ( New Repurchase Program ). Under the New Repurchase Program, the Company is authorized to use up to \$100,000 to purchase shares of Emdeon's Common Stock from time to time beginning on December 19, 2006, subject to market conditions. As of December 31, 2006, the Company had repurchased 910,940 shares at a cost of approximately \$11,324 under the New Repurchase Program.

On March 29, 2001, the Company announced a stock repurchase program. Under that program, the Company was originally authorized to use up to \$50,000 to purchase shares of Emdeon's Common Stock from time to time beginning on April 2, 2001, subject to market conditions. The maximum aggregate amount of purchases under that program was subsequently increased to \$100,000, \$150,000, \$200,000 and \$345,000 on November 2, 2001, November 7, 2002, August 19, 2004 and November 1, 2005, respectively. As of December 31, 2005, the Company had repurchased 29,126,986 shares at a cost of approximately \$159,714 under that program, of which 2,541,000 shares were repurchased during 2005 for an aggregate purchase price of \$21,246 and 4,272,630 shares were repurchased during 2004 for an aggregate purchase price of \$32,110. On November 23, 2005, in connection with the 2005 Tender Offer, the Company announced the termination of the Program.



## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Preferred Stock**

On September 23, 2004, two related proposals were approved at the Company's annual meeting of stockholders. The first proposal reduced the number of authorized shares of the Company's Convertible Redeemable Exchangeable Preferred Stock from 5,000,000 to 10,000 (the amount issued and outstanding). The other proposal authorized the Company's Board of Directors to approve the issuance of up to 4,990,000 shares of preferred stock from time to time in one or more series, to establish from time to time the number of shares to be included in any such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof. No shares have been issued pursuant to that authority and the 10,000 shares of Convertible Redeemable Exchangeable Preferred Stock are the only shares of preferred stock of the Company that are issued and outstanding. For a description of the Company's Convertible Redeemable Exchangeable Preferred Stock, see Note 9.

**Warrants**

At December 31, 2006, the Company had warrants outstanding to purchase 5,460,038 shares of common stock which are all vested and exercisable. The following table summarizes information with respect to warrants outstanding at December 31, 2006:

<b>Exercise Prices</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (In Years)</b>
\$0.67-\$9.25	2,417,944	\$ 9.23	1.35
\$15.00	3,000,000	15.00	0.13
\$30.00	42,094	30.00	1.48
	5,460,038	\$ 12.56	0.68

In 2006 there were no exercises of warrants. During 2005 and 2004, warrants to purchase a total of 1,416,668 shares and 2,302,706 shares, of the Company's Common Stock at a weighted average exercise price of \$1.53 per share and \$5.14 per share, respectively were exercised. Also during 2006, 2005 and 2004, warrants to purchase a total of 100,000 shares, 599,197 shares and 15,691,782 shares, of the Company's Common Stock at a weighted average price of \$38.13 per share, \$8.04 per share and \$27.35 per share, respectively, expired.



**EMDEON CORPORATION**

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

**17. Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets (liabilities) were as follows:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Deferred tax assets:		
Federal net operating loss carryforwards	\$ 419,293	\$ 729,335
State net operating loss carryforwards	67,521	83,353
Federal tax credits	35,390	19,162
Other accrued expenses	30,200	31,783
Intangible assets		58,171
Stock-based compensation	13,362	1,464
Investment in EBS Master LLC	30,072	
Other	8,355	19,854
<b>Total deferred tax assets</b>	<b>604,193</b>	<b>943,122</b>
Valuation allowance	(554,204)	(924,155)
<b>Net deferred tax assets</b>	<b>49,989</b>	<b>18,967</b>
Deferred tax liabilities:		
Goodwill	(5,392)	(9,269)
Intangible assets	(16,755)	
Convertible notes	(36,506)	(21,958)
Other	(1,813)	(2,027)
<b>Total deferred tax liabilities</b>	<b>(60,466)</b>	<b>(33,254)</b>
<b>Net deferred tax liabilities</b>	<b>\$ (10,477)</b>	<b>\$ (14,287)</b>

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated)</b>	<b>(Restated)</b>
Reported as:		
Current deferred tax assets and liabilities	\$ 30,590	\$ 37,937

Valuation allowance	(30,590)	(37,937)
Current deferred tax assets, net		
Non-current deferred tax assets and liabilities	513,137	871,931
Valuation allowance	(523,614)	(886,218)
Non-current deferred tax liabilities, net	(10,477)	(14,287)
Net deferred tax liabilities	\$ (10,477)	\$ (14,287)

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The income tax provision was as follows:

	Years Ended December 31,		
	2006 (Restated)	2005 (Restated)	2004 (Restated)
Current:			
Federal	\$ 7,939	\$ (5,742)	\$
State	15,499	85	2,186
Foreign	1,985	4,482	2,037
Current income tax provision (benefit)	25,423	(1,175)	4,223
Deferred:			
Federal	(3,479)	3,855	2,444
State	(398)	441	279
Deferred income tax (benefit) provision	(3,877)	4,296	2,723
Reversal of valuation allowance applied to goodwill	30,770	174	
Total income tax provision	\$ 52,316	\$ 3,295	\$ 6,946

The reconciliation between the federal statutory rate and the effective income tax rate is as follows:

	Years Ended December 31,		
	2006 (Restated)	2005 (Restated)	2004 (Restated)
United States federal statutory rate	35.0%	35.0%	34.0%
State income taxes (net of federal benefit)	1.3	1.5	3.5
Goodwill amortization	12.6	(7.5)	(9.7)
Valuation allowance	(79.9)	24.0	9.9
Cumulative effect of change in tax rate		(40.4)	
Settlement of tax contingencies	(0.7)	(10.2)	
Reversal of valuation allowance applied to goodwill	6.8	0.3	
Losses benefited to (from) discontinued operations	36.7	(2.3)	(18.2)
Other	(0.3)	5.5	(2.8)
Effective income tax rate	11.5%	5.9%	16.7%

As of December 31, 2006, a valuation allowance has been provided against all domestic net deferred taxes, except for a deferred tax liability originating from the Company's business combinations that resulted in tax-deductible goodwill

which is indefinite as to when such liability will reverse, as well as a deferred tax liability established in purchase accounting that is not expected to reverse prior to the expiration of net operating losses. The valuation allowance was established because of the uncertainty of realization of the deferred tax assets due to lack of sufficient history of generating taxable income. Realization is dependent upon generating sufficient taxable income prior to the expiration of the net operating loss carryforwards in future periods. Although realization is not currently assured, management evaluates the need for a valuation allowance each quarter, and in the future, should management determine that realization of net deferred tax assets is more likely than not, some or all of the valuation allowance will be reversed, and the Company's effective tax rate may be reduced as a result of such reversal. The valuation allowance also excludes the impact of any deferred items related to certain of the Company's foreign operations as the realization of the deferred items for these operations is likely.

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**EMDEON CORPORATION**

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

These deferred tax liabilities in the amount of \$10,477 and \$14,287 as of December 31, 2006 and 2005, respectively, are included in other long-term liabilities in the accompanying consolidated balance sheets. The valuation allowance for deferred tax assets decreased by \$369,951 and increased by \$42,717 in 2006 and 2005, respectively. The reduction in the valuation allowance in 2006 primarily relates to the utilization of net operating losses to offset the gain on the EPS Sale and the EBS Sale.

At December 31, 2006, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$1.2 billion, which expire in 2011 through 2026, and federal tax credits of approximately \$35,390, which expire in 2007 through 2027. Approximately \$432,463 and \$36,077 of these net operating loss carryforwards were recorded through additional paid-in capital and goodwill, respectively. Therefore, if in the future the Company believes that it is more likely than not that these tax benefits will be realized, this portion of the valuation allowance will be reversed against additional paid-in capital and goodwill, respectively.

The Company uses the with-and-without approach as described in EITF Topic No. D-32 in determining the order in which tax attributes are utilized. Using the with-and-without approach, the Company will only recognize a tax benefit from stock-based awards in additional paid in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. As a result of this approach, tax net operating loss carryforwards generated from operations and acquired entities are considered utilized before the current period's share-based deduction.

The Company has excess tax benefits, related to current year stock option exercises subsequent to the adoption of SFAS 123R of \$84,685 that are not recorded as a deferred tax asset as the amounts would not have resulted in a reduction in current taxes payable as all other tax attributes currently available to the Company were utilized. The benefit of these deductions will be recorded to additional paid-in capital at the time the tax deduction results in a reduction of current taxes payable.

A portion of net operating loss carryforwards and tax credit carryforwards may be subject to an annual limitation regarding their utilization against taxable income in future periods due to the change of ownership provisions of the Internal Revenue Code and similar state provisions. A portion of these carryforwards may expire before becoming available to reduce future income tax liabilities.

The income taxes for 2006 and 2005, respectively, include a provision for federal taxes of \$28,783 and \$174 that has not been reduced by the decrease in valuation allowance as these tax benefits were acquired through business combinations. In addition, in 2005 the Joint Committee of the Internal Revenue Service completed its review of claims related to 2001 and 2002. The 2005 federal tax benefit reflects approximately \$5,742 of a reduction in tax expense primarily as a result of the reevaluation of our liabilities and contingencies in light of the completion of the review.

Some of the Company's operating companies are profitable in certain states in which the Company does not have net operating losses to offset that income. Accordingly, the Company provided for taxes of \$19,614, \$1,711, and \$2,186 related to state and other jurisdictions during 2006, 2005 and 2004, respectively. In addition, the income tax expense in 2006 includes a provision for state taxes of \$1,987 that has not been reduced by the decrease in valuation allowance as these tax benefits were acquired through business combinations. The state tax provision in 2006 and 2005 also reflects approximately \$4,115 and \$1,626, respectively, of a reduction in tax expense related to discrete items associated with the reversal of contingencies for various statute expirations.

The income tax provision for 2006, 2005 and 2004 includes \$3,454, \$4,482 and \$2,037, respectively, related to non-U.S. income taxes of certain of the Company's foreign operations. The non-U.S. income of these foreign operations included in income from continuing operations before income tax provision was \$10,250, \$7,634 and \$5,151 for 2006, 2005 and 2004, respectively. In addition, the foreign tax provision in 2006 reflects approximately \$1,469 of a reduction in tax expense related to the reevaluation of our liabilities and contingencies in light of a recent tax examination.

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

The deferred income tax (benefit) provision of \$(3,877), \$4,296 and \$2,723 for the years ended December 31, 2006, 2005 and 2004, respectively, primarily is related to the effect on the valuation allowance of goodwill that is deductible for tax purposes.

As of December 31, 2006, 2005 and 2004, cumulative undistributed earnings of the Company's foreign operations were \$35,339, \$25,878 and \$23,248, respectively. No U.S. income taxes have been provided for since the Company considers the undistributed earnings to be permanently reinvested for continued use in the Company's foreign subsidiaries' operations. Upon repatriation of these earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the U.S. liability.

**18. Fair Value of Financial Instruments**

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair values have been determined using available market information. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Cost Basis</b>	<b>Fair Value</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 614,691	\$ 614,691	\$ 155,616	\$ 155,616
Short-term investments	34,140	34,140	268,109	267,387
Marketable securities - long term	1,474	2,633	1,477	4,430
<b>Liabilities:</b>				
Convertible notes	650,000	636,996	650,000	537,000
Convertible redeemable exchangeable preferred stock	98,768	132,500	98,533	96,500

As of December 31, 2006 and 2005, the Company's short-term investments and marketable debt securities consisted of certificates of deposit, auction rate securities, asset backed securities, money market funds and U.S. Treasury Notes and marketable equity securities consisted of equity investments in publicly traded companies. All marketable securities are classified as available-for-sale.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with the requirements of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, below is a summary of the fair value, gains and losses relating to the Company's investments in debt and equity securities:

	December 31, 2006				December 31, 2005			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-Term Certificate of deposits and marketable debt securities	\$ 34,140	\$	\$	\$ 34,140	\$ 268,109	\$ 11	\$ 733	\$ 267,387
Long-Term Equity securities	\$ 1,474	\$ 1,161	\$ 2	\$ 2,633	\$ 1,477	\$ 2,955	\$ 2	\$ 4,430

During 2006, the Company sold investments in available-for-sale marketable debt and equity securities for proceeds of \$259,113 included in proceeds from maturities and sales of available-for-sale securities in the accompanying consolidated statements of cash flows, which did not result in a gain or loss.

During 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 for the redemption of the 3 1/4% Notes. The loss represented the excess of the original book value of those investments over the market value at March 31, 2005, the period in which the loss was recorded. 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 2005, the Company sold investments in available-for-sale marketable debt securities for proceeds of \$1,063,606 included in proceeds from maturities and sales of available-for-sale securities in the accompanying consolidated statements of cash flows. The Company realized a total gain of \$1,961 and realized a total loss of \$4,075 in connection with these sales. These gains and losses have been included in loss (gain) on investments in the accompanying consolidated statements of operations.

During 2004, the Company sold investments in available-for-sale marketable debt and equity securities for proceeds of \$1,253,491. The Company realized a gain of \$541 and realized a loss of \$84 in connection with these sales. The gains and losses have been included in loss (gain) on investments in the accompanying consolidated statements of operations.

**19. Other Expense, Net**

Other expense, net consists of the following (income) expense items:



	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Transition services income(a)	\$ (2,524)	\$	\$
Advisory expense(b)	4,198		
Loss on redemption of convertible debt(c)		1,902	
Settlement of litigation(d)		1,863	
Restructuring and integration charge(e)			4,535
Other expense, net	\$ 1,674	\$ 3,765	\$ 4,535

(a) Represents the net income received from Sage Software and EBSCO in relation to the respective Transition Services Agreements. See Note 2 and 3.

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (b) Represents professional fees, primarily consisting of legal, accounting and financial advisory services related to the EBS Sale through September 26, 2006, the date the Company entered into a definitive agreement with General Atlantic regarding the sale of this business.
- (c) Represents a write-off of the remaining unamortized deferred issuance costs related to the portion of the 3 1/4% Notes that were redeemed, and the payment of the redemption premium. See Note 10.
- (d) Represents the settlement of litigation in 2005, in which the Company was named as a defendant.
- (e) Represents a charge related to the 2000 restructuring plan. See Note 8.

**20. Related Party Transactions**

In 2004, the Company's WebMD segment entered into an agreement with Fidelity Human Resources Services Company LLC ( FHRS ) to integrate WebMD's private portals product into the services FHRS provides to its clients. FHRS provides human resources administration and benefit administration services to employers. The Company recorded revenue of \$7,802, \$2,960 and \$817 in 2006, 2005 and 2004, respectively, and \$2,145 and \$1,068 were included in accounts receivable as of December 31, 2006 and 2005, respectively, related to the FHRS agreement. FHRS is an affiliate of FMR Corp, which reported beneficial ownership of shares that represent approximately 13.0% of Emdeon's Common Stock and approximately 10.8% of WHC Class A Common Stock as of December 31, 2006. Affiliates of FMR Corp. provide services to the Company in connection with certain of the Company's 401(k) plans.

Through September 14, 2006 (the date of the EPS Sale), the Company leased property in Alachua, Florida for its EPS segment that is owned by a former executive officer of the Company. The term of the lease was through March 31, 2009, and under the terms of the lease, the Company was responsible for all real estate taxes, insurance and maintenance related to this property. During 2006, 2005 and 2004, the Company paid rent under this lease of approximately \$973, \$1,253 and \$1,203, respectively.

**21. Comprehensive Income**

Comprehensive income is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments and certain changes in equity that are excluded from net income, such as changes in unrealized holding (losses) gains on available-for-sale marketable securities. The following table presents the components of other comprehensive income (loss):

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
Foreign currency translation gains (losses)	\$ 3,611	\$ (3,326)	\$ 2,118
Unrealized (losses) gains on securities:			
Unrealized holding losses	(1,108)	(3,389)	(10,124)
		(6,365)	457

Less: reclassification adjustment for net gains (losses) realized in net income

Net unrealized (losses) gains on securities	(1,108)	2,976	(10,581)
Other comprehensive income (loss)	2,503	(350)	(8,463)
Net income	771,917	68,811	36,611
Comprehensive income	\$ 774,420	\$ 68,461	\$ 28,148

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

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accumulated other comprehensive income includes:

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Unrealized gains (losses) on securities	\$ 1,159	\$ 2,267	\$ (709)
Foreign currency translation gains	8,951	5,340	8,666
Total accumulated other comprehensive income	\$ 10,110	\$ 7,607	\$ 7,957

**22. Supplemental Disclosures of Cash Flow Information**

Supplemental information related to the consolidated statements of cash flows is summarized below:

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$ 15,802	\$ 13,131	\$ 16,190
Taxes paid, net of refunds	\$ 23,210	\$ 5,727	\$ 5,635
Supplemental Schedule of Non-Cash Investing and Financing activities:			
Conversion of \$300,000 3 1/4% Convertible Subordinated Notes to Emdeon Common Stock	\$	\$ 214,880	\$
Accretion of convertible redeemable exchangeable preferred stock	\$ 235	\$ 234	\$ 184
Deferred stock compensation related to restricted stock awards	\$	\$ 2,241	\$ 13,001
SAB 51 gain	\$ 16,779	\$ 82,275	\$

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. Quarterly Financial Data (Unaudited)

The following table summarizes the quarterly financial data for 2006 and 2005. The per common share calculations for each of the quarters are based on the weighted average number of common shares for each period; therefore, the sum of the quarters may not necessarily be equal to the full year per common share amount.

	2006			
	First Quarter (Restated)	Second Quarter (Restated)	Third Quarter (Restated)	Fourth Quarter (Restated)
Revenue	\$ 277,194	\$ 291,631	\$ 299,732	\$ 230,051
Cost of operations	167,174	169,041	169,710	117,833
Development and engineering	8,864	9,057	9,243	6,485
Sales, marketing, general and administrative	70,180	72,033	74,390	71,412
Depreciation and amortization	16,554	17,221	18,189	10,012
Legal expense	542	275	1,023	738
Interest (expense) income, net	(273)	(235)	1,876	12,192
Gain on sale of EBS				352,297
Other (expense) income, net		(2,072)	(1,786)	2,184
Income from continuing operations before income tax provision	13,607	21,697	27,267	390,244
Income tax provision	4,056	6,288	4,779	37,193
Minority interest in WHC	(472)	(121)	69	929
Equity in earnings of EBS Master LLC				763
Income from continuing operations	10,023	15,530	22,419	352,885
Income from discontinued operations, net of tax	5,567	6,556	358,048	889
Net income	\$ 15,590	\$ 22,086	\$ 380,467	\$ 353,774
Basic income per common share:				
Income from continuing operations	\$ 0.04	\$ 0.05	\$ 0.08	\$ 1.38
Income from discontinued operations, net of tax	0.01	0.03	1.24	0.00
Net income	\$ 0.05	\$ 0.08	\$ 1.32	\$ 1.38
Diluted income per common share:				
Income from continuing operations	\$ 0.03	\$ 0.05	\$ 0.07	\$ 1.16
Income from discontinued operations, net of tax	0.02	0.02	1.20	0.00
Net income	\$ 0.05	\$ 0.07	\$ 1.27	\$ 1.16



## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2005			
	First Quarter (Restated)	Second Quarter (Restated)	Third Quarter (Restated)	Fourth Quarter (Restated)
Revenue	\$ 244,059	\$ 257,630	\$ 261,022	\$ 263,764
Cost of operations	141,903	151,126	152,066	150,559
Development and engineering	8,895	8,788	8,912	9,058
Sales, marketing, general and administrative	62,456	62,971	63,865	65,595
Depreciation and amortization	14,001	15,024	15,801	16,079
Legal expense	4,160	4,283	5,904	3,488
Loss (gain) on investments	3,832	(190)		2,723
Interest (expense) income, net	(461)	43	2,128	3,495
Other expense, net		1,902	1,863	
Income from continuing operations before income tax provision (benefit)	8,351	13,769	14,739	19,757
Income tax provision (benefit)	438	2,972	2,977	(3,092)
Minority interest in WHC			35	740
Income from continuing operations	7,913	10,797	11,727	22,109
Income from discontinued operations, net of tax	1,297	4,314	1,257	9,397
Net income	\$ 9,210	\$ 15,111	\$ 12,984	\$ 31,506
Basic income per common share:				
Income from continuing operations	\$ 0.02	\$ 0.03	\$ 0.03	\$ 0.06
Income from discontinued operations, net of tax	0.01	0.01	0.01	0.03
Net income	\$ 0.03	\$ 0.04	\$ 0.04	\$ 0.09
Diluted income per common share:				
Income from continuing operations	\$ 0.02	\$ 0.03	\$ 0.03	\$ 0.06
Income from discontinued operations, net of tax	0.01	0.01	0.01	0.03
Net income	\$ 0.03	\$ 0.04	\$ 0.04	\$ 0.09

**24. Restatement of Consolidated Financial Statements**

The Company identified an error in its accounting for non-cash income tax expense and related deferred taxes. The error relates to the tax impact of goodwill and certain intangible assets arising from certain business combinations, primarily tax-deductible goodwill which is amortized as an expense for tax purposes over 15 years but is not amortized to expense for financial reporting purposes since the adoption of SFAS 142 as of January 1, 2002. The

Company recorded a deferred income tax expense and a deferred tax liability related to the tax-deductible goodwill. However, in preparing its financial statements, the Company incorrectly netted the deferred tax liability resulting from the amortization of tax-deductible goodwill against deferred tax assets (primarily relating to the Company's net operating loss carryforwards) and provided a valuation allowance on the net asset balance. Because the deferred tax liability has an indefinite life, it should not have been netted against deferred tax assets with a definite life when determining the required valuation allowance. As a result, the Company did not record the appropriate valuation allowance and related deferred income tax expense. The deferred tax liability described above will remain on the balance sheet of the Company

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

indefinitely unless there is an impairment of goodwill for financial reporting purposes or the related business entity is disposed of through a sale or otherwise.

The error resulted in an understatement of deferred income tax expense and related deferred tax liability and an overstatement of net income in the aggregate amount of \$3,142 in the Company's audited financial statements for the years ended December 31, 2006, 2005 and 2004. Additionally, as a portion of the adjustment to deferred income tax expense related to WHC, the Company has also adjusted the minority interest in WHC for the period of time during the years ended December 31, 2006 and 2005 that WHC was not a 100% owned subsidiary of the Company, which resulted in an adjustment to minority interest in WHC in the aggregate amount of \$434 during the years ended December 31, 2006 and 2005. The impact to the Company's net income, after taking into account the above adjustments, was \$2,708 in the aggregate during the years ended December 31, 2006, 2005 and 2004 and the aggregate impact to retained earnings as of December 31, 2003 was \$6,617. The correction had no effect on the Company's revenues, total assets, cash flows or liquidity for any of these periods and no effect on the Company's pre-tax operating results, other than the effect on minority interest. The Company believes that there will be no effect on its debt agreements or other contractual obligations as a result of this error.

The effects of this change on the consolidated balance sheets as of December 31, 2006 and 2005, and the consolidated statements of operations and cash flows for the three years in the period ended December 31, 2006 are summarized as follows:

	<b>Consolidated Balance Sheets</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>Restated</b>
As of December 31, 2006:			
Other long-term liabilities	\$ 14,420	\$ 9,759	\$ 24,179
Minority interest in WebMD Health Corp.(WHC)	102,294	(434)	101,860
Accumulated deficit	(9,332,660)	(9,325)	(9,341,985)
Total stockholders' equity	381,852	(9,325)	372,527
As of December 31, 2005:			
Other long-term liabilities	14,518	13,636	28,154
Minority interest in WebMD Health Corp.(WHC)	43,229	(133)	43,096
Accumulated deficit	(10,100,164)	(13,503)	(10,113,667)
Total stockholders' equity	1,074,736	(13,503)	1,061,233

## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	<b>Consolidated Statements of Operations</b>		
	<b>As</b>		
	<b>Previously Reported</b>	<b>Adjustments</b>	<b>Restated</b>
Year Ended December 31, 2006:			
Income tax provision	\$ 56,193	\$ (3,877)	\$ 52,316
Minority interest in WHC	706	(301)	405
Income from continuing operations	396,679	4,178	400,857
Net income	767,739	4,178	771,917
Basic income per common share:			
Income from continuing operations	\$ 1.42	\$ 0.02	\$ 1.44
Income from discontinued operations	1.33	(0.01)	1.32
Net income	\$ 2.75	\$ 0.01	\$ 2.76
Diluted income per common share:			
Income from continuing operations	\$ 1.25	\$ 0.01	\$ 1.26
Income from discontinued operations	1.12		1.12
Net income	\$ 2.37	\$ 0.01	\$ 2.38
Year Ended December 31, 2005:			
Income tax (benefit) provision	\$ (1,001)	\$ 4,296	\$ 3,295
Minority interest in WHC	908	(133)	775
Income from continuing operations	56,709	(4,163)	52,546
Net income	72,974	(4,163)	68,811
Basic income per common share:			
Income from continuing operations	\$ 0.17	\$ (0.02)	\$ 0.15
Income from discontinued operations	0.04	0.01	0.05
Net income	\$ 0.21	\$ (0.01)	\$ 0.20
Diluted income per common share:			
Income from continuing operations	\$ 0.16	\$ (0.01)	\$ 0.15
Income from discontinued operations	0.05		0.05
Net income	\$ 0.21	\$ (0.01)	\$ 0.20
Year Ended December 31, 2004:			
Income tax provision	\$ 4,223	\$ 2,723	\$ 6,946
Income from continuing operations	37,378	(2,723)	34,655
Net income	39,334	(2,723)	36,611
Basic income per common share:			

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Income from continuing operations	\$	0.12	\$	(0.01)	\$	0.11
Income from discontinued operations		0.00				0.00
Net income	\$	0.12	\$	(0.01)	\$	0.11
Diluted income per common share:						
Income from continuing operations	\$	0.11	\$	(0.01)	\$	0.10
Income from discontinued operations		0.01				0.01
Net income	\$	0.12	\$	(0.01)	\$	0.11

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## EMDEON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	<b>Consolidated Statements of Cash Flows</b>		
	<b>As</b>		
	<b>Previously Reported</b>	<b>Adjustments</b>	<b>Restated</b>
Year Ended December 31, 2006:			
Net income	\$ 767,739	\$ 4,178	\$ 771,917
Minority interest in WHC	706	(301)	405
Deferred income taxes		(3,877)	(3,877)
Year Ended December 31, 2005:			
Net income	\$ 72,974	\$ (4,163)	\$ 68,811
Minority interest in WHC	908	(133)	775
Deferred income taxes		4,296	4,296
Year Ended December 31, 2004:			
Net income	\$ 39,334	\$ (2,723)	\$ 36,611
Deferred income taxes		2,723	2,723

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**Schedule II. Valuation and Qualifying Accounts**

	Years Ended December 31, 2006, 2005 and 2004 (Restated)					Balance at End of Year
	Balance at Beginning of Year	Charged to Costs and Expenses	Acquired	Write-offs	Other	
December 31, 2006						
Allowance for Doubtful Accounts	\$ 6,909	\$ 1,627	\$ 229	\$ (3,830)	\$ (3,639)(b)	\$ 1,296
Valuation Allowance for Deferred Tax Assets	924,155	(370,313)	362			554,204
December 31, 2005						
Allowance for Doubtful Accounts	6,420	2,527	60	(2,098)		6,909
Valuation Allowance for Deferred Tax Assets	881,438	12,733	12,893		17,091(a)	924,155
December 31, 2004						
Allowance for Doubtful Accounts	10,593	(1,592)	152	(2,733)		6,420
Valuation Allowance for Deferred Tax Assets	882,817	2,838	(18,189)		13,972(a)	881,438

(a) Represents valuation allowance created through equity as a result of stock option and warrant exercises.

(b) Represents the sale of the Emdeon Business Services segment on November 16, 2006.