EMDEON CORP
Form 10-Q
August 09, 2006

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

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended June 30, 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	**94-3236644**
(State of incorporation)	*(I.R.S. employer identification no.)*
669 River Drive, Center 2 **Elmwood Park, New Jersey**	**07407-1361**
(Address of principal executive office)	*(Zip code)*

(201) 703-3400
(Registrant s telephone number including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is 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.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

As of August 7, 2006, there were 275,912,772 shares of
Emdeon Common Stock outstanding.

EMDEON CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the period ended June 30, 2006
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WebMD®, WebMD Health®, CME Circle®, dakota imagingtm, Digital Office Manager®, DIM$_{(DX)}$®, Emdeontm, Emdeon Business Servicestm, Emdeon Practice Servicestm, eMedicine®, Envoy®, ExpressBill®, Image DirectorSM, Healthpayers USA®, HealthPro® XL, Intergy®, MedicineNet®, Medifax®, Medifax-EDI®, Medpulse®, Medscape®, MEDPOR®, Medware®, Physician FlowSM, POREX®, Publishers Circle®, RxList®, Select Quality Care®, Summex®, theheart.org®, The Little Blue Booktm, The Medical Manager® and ViPS® are trademarks of Emdeon Corporation or its subsidiaries.

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FORWARD-LOOKING STATEMENTS

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

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

- the inability to successfully deploy new or updated applications or services;
- the failure to achieve sufficient levels of customer utilization and market acceptance of new or updated products and services;
- difficulties in forming and maintaining relationships with healthcare industry participants, including healthcare payers and providers and vendors of services to those payers and providers;
- diversion of resources to the process of evaluating alternatives with respect to our Emdeon Business Services segment and uncertainties regarding the outcome of the process and its effects on that segment and on our company as a whole;
- the inability to attract and retain qualified personnel;
- the anticipated benefits from acquisitions or divestitures not being fully realized or not being realized within the expected time frames;
- general economic, business or regulatory conditions affecting the healthcare, information technology, Internet and plastics industries being less favorable than expected; and
- the other risks and uncertainties described in this Quarterly Report on Form 10-Q under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Future Financial Condition or Results of Operations.

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

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

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PART I
FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

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

	June 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 92,210	$ 159,510
Short-term investments	296,750	267,387
Accounts receivable, net of allowance for doubtful accounts of $10,333 at June 30, 2006 and $12,535 at December 31, 2005	239,024	233,070
Inventory	14,486	14,251
Prepaid expenses and other current assets	36,079	34,615
Total current assets	678,549	708,833
Marketable equity securities	2,944	4,481
Property and equipment, net	126,376	116,032
Goodwill	1,110,521	1,075,549
Intangible assets, net	238,213	240,510
Other assets	47,837	50,278
TOTAL ASSETS	$ 2,204,440	$ 2,195,683
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 15,135	$ 11,611
Accrued expenses	158,249	186,381
Deferred revenue	125,811	115,840
Total current liabilities	299,195	313,832
1.75% convertible subordinated notes due 2023	350,000	350,000
3 1/8 % convertible notes due 2025	300,000	300,000
Other long-term liabilities	15,946	15,353
Minority interest in WebMD Health Corp.	53,811	43,229
Convertible redeemable exchangeable preferred stock, $0.0001 par value; 10,000 shares authorized, issued and outstanding at June 30, 2006 and December 31, 2005	98,650	98,533
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 4,990,000 shares authorized; no shares issued		
	43	43

Common stock, $0.0001 par value; 900,000,000 shares authorized; 433,133,863 shares issued at June 30, 2006; 428,624,239 shares issued at December 31, 2005		
Additional paid-in capital	12,162,045	12,121,431
Deferred stock compensation		(3,699)
Treasury stock, at cost; 157,625,719 shares at June 30, 2006; 150,296,414 shares at December 31, 2005	(1,022,325)	(950,482)
Accumulated deficit	(10,060,669)	(10,100,164)
Accumulated other comprehensive income	7,744	7,607
Total stockholders equity	1,086,838	1,074,736
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,204,440	$ 2,195,683

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenue:				
Services	$ 313,766	$ 282,729	$ 615,346	$ 549,307
Products	41,115	39,827	78,654	77,183
Total revenue	354,881	322,556	694,000	626,490
Cost of operations:				
Services	177,039	161,840	354,202	316,016
Products	20,107	20,110	38,211	38,097
Total cost of operations	197,146	181,950	392,413	354,113
Development and engineering	15,283	14,457	30,197	29,097
Sales, marketing, general and administrative	90,008	83,533	178,840	165,670
Depreciation and amortization	19,381	17,541	38,309	34,045
Legal expense	275	4,283	817	8,443
Advisory expense	4,104		4,104	
Loss (gain) on investments		(190)		3,642
Loss on redemption of convertible debt		1,902		1,902
Interest income	4,435	3,936	8,854	8,257
Interest expense	4,668	3,895	9,359	8,676
Income before income tax provision and minority interest	28,451	19,121	48,815	29,159
Income tax provision	5,434	2,955	9,996	3,144
Minority interest in WebMD Health Corp., net of tax	(164)		(793)	
Net income	$ 23,181	$ 16,166	$ 39,612	$ 26,015
Net income per common share:				
Basic	$ 0.08	$ 0.05	$ 0.14	$ 0.08
Diluted	$ 0.08	$ 0.05	$ 0.13	$ 0.08
Weighted-average shares outstanding used in computing net income per common share:				
Basic	285,086	337,303	286,141	331,318
Diluted	296,722	349,624	296,107	342,656

See accompanying notes.

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows from operating activities:		
Net income	$ 39,612	$ 26,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,309	34,045
Minority interest in WebMD Health Corp., net of tax	(793)	
Amortization of debt issuance costs	1,461	1,333
Non-cash advertising	2,794	5,013
Non-cash stock-based compensation	25,562	2,367
Bad debt expense	1,645	3,722
Loss on investments		3,642
Loss on redemption of convertible debt		1,902
Reversal of income tax valuation allowance applied to goodwill	5,215	2,146
Changes in operating assets and liabilities:		
Accounts receivable	(4,719)	(18,350)
Inventory	(179)	186
Prepaid expenses and other, net	(3,659)	1,655
Accounts payable	3,479	(5,881)
Accrued expenses and other long-term liabilities	222	(4,596)
Deferred revenue	6,272	9,501
Net cash provided by operating activities	115,221	62,700
Cash flows from investing activities:		
Proceeds from maturities and sales of available-for-sale securities	398,870	190,673
Purchases of available-for-sale securities	(426,470)	(94,350)
Purchases of property and equipment	(28,971)	(38,717)
Proceeds received from sale of property and equipment		400
Cash paid in business combinations, net of cash acquired	(84,846)	(74,110)
Net cash used in investing activities	(141,417)	(16,104)
Cash flows from financing activities:		
Proceeds from issuance of common stock	30,433	31,437
Purchases of treasury stock	(71,843)	
Redemption of convertible debt		(86,694)
Payments of notes payable and other	(173)	(304)
Net cash used in financing activities	(41,583)	(55,561)
Effect of exchange rates on cash	479	(1,124)
Net decrease in cash and cash equivalents	(67,300)	(10,089)

Cash and cash equivalents at beginning of period	159,510	46,019
Cash and cash equivalents at end of period	$ 92,210	$ 35,930

See accompanying notes.

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

1. Background and Basis of Presentation

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.

WHC s Class A Common Stock began trading on the Nasdaq National Market under the symbol WBMD on September 29, 2005 and now trades on the Nasdaq Global Select Market. As of June 30, 2006, the Company owned 48,100,000 shares of WHC Class B Common Stock, which represents 85.8% of all outstanding WHC s Class A and Class B 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 June 30, 2006, 96.6% of the combined voting power of WHC s outstanding Common Stock.

Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of Emdeon 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 WebMD Health Corp. in the accompanying consolidated balance sheets.

Interim Financial Statements

The unaudited consolidated financial statements of the Company have been prepared by management and reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for any subsequent period or for the entire year ending December 31, 2006. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted under the Securities and Exchange Commission s (the SEC) rules and regulations.

The unaudited consolidated financial statements and notes included herein should be read in conjunction with the Company s audited consolidated financial statements and notes for the year ended December 31, 2005, which are included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make 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 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 services, the carrying value of long-lived assets (including goodwill and intangible assets), the amortization and depreciation period of long-lived assets (excluding goodwill), the carrying value, capitalization and amortization of software development costs, the carrying value of short-term and long-term investments, the provision for income taxes and related deferred tax accounts, certain accrued expenses, revenue recognition, contingencies, litigation and the value attributed to 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 stock-based compensation expense related to stock options and other stock awards based on WHC Class A Common Stock that has 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 was expensed in connection with APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) prior to January 1, 2006. As of June 30, 2006 and December 31, 2005, the minority stockholders proportionate share of the equity in WHC of $53,811 and $43,229, respectively, are reflected as Minority interest in WebMD Health Corp. in the accompanying consolidated balance sheets. The minority stockholders proportionate share of net loss in WHC for the three and six months ended June 30, 2006 was $164 and $793, respectively.

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 net 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 net income per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, increased to give effect to potentially dilutive securities. Additionally, for purposes of calculating diluted net income per common share of the Company during the three and six months ended June 30, 2006, 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

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

securities on the calculation of diluted net income per common share was not material. The following table presents the calculation of basic and diluted net income per common share (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator:				
Net income	$ 23,181	$ 16,166	$ 39,612	$ 26,015
Denominator:				
Common stock	274,448	326,665	275,503	320,680
Convertible redeemable exchangeable preferred stock	10,638	10,638	10,638	10,638
Weighted-average shares Basic	285,086	337,303	286,141	331,318
Employee stock options, restricted stock and warrants	11,636	12,321	9,966	11,338
Adjusted weighted-average shares after assumed conversions Diluted	296,722	349,624	296,107	342,656
Net income per common share:				
Basic	$ 0.08	$ 0.05	$ 0.14	$ 0.08
Diluted	$ 0.08	$ 0.05	$ 0.13	$ 0.08

The Company has excluded convertible notes, as well as certain outstanding warrants and stock options, from the calculation of diluted income per common share because such securities were anti-dilutive during the periods presented. The following table presents the total number of shares that could potentially dilute basic net income per common share in the future that were not included in the computation of diluted net income per common share during the periods presented (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Options and warrants	58,475	59,832	60,926	68,888
Convertible notes	42,015	22,742	42,015	22,742
	100,490	82,574	102,941	91,630

Revenue

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, software maintenance, training, customer support 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 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, and the software and hardware components of the information technology software systems the Company s sells through its Emdeon Practice Services segment. Additionally, product revenues include other miscellaneous products, such as, medical forms and supplies, medical related office furniture, medical reference publications and directories, as well as other miscellaneous software products.

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amount of products revenue and services revenue and the related cost of operations for each type of revenue, is presented separately on the accompanying statements of operations for the three and six months ended June 30, 2006 and 2005. The following table provides this additional disclosure for the years ended December 31, 2005, 2004 and 2003 which was not previously provided:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Revenue:			
Services	$ 1,123,646	$ 1,006,192	$ 799,268
Products	153,233	154,159	164,712
Total revenue	$ 1,276,879	$ 1,160,351	$ 963,980
Cost of operations:			
Services	$ 641,754	$ 593,467	$ 492,555
Products	75,293	72,964	72,384
Total cost of operations	$ 717,047	$ 666,431	$ 564,939

Sales, Use and Value Added Tax

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

Advisory Expense

Advisory expense includes professional fees, primarily consisting of legal, accounting and financial advisory services, related to the evaluation of strategic alternatives for the Emdeon Business Services and Emdeon Practice Services segments.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standard Board (FASB) issued FASB Interpretation No. 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 FASB Statement 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. 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. 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

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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, the Company s majority owned public subsidiary has a similar stock-based compensation plan that provides 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 7,079,117 shares of Emdeon Common Stock available for future grants under the Plans at June 30, 2006. In addition to the Plans, the Company has granted options to certain directors, officers and key employees pursuant to an individual stock option agreement. At June 30, 2006, there were options to purchase 5,762,700 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.

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Options are granted 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 six months ended June 30, 2006:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value(1)
Outstanding at January 1, 2006	88,183,095	$ 12.96		
Granted	6,370,500	9.15		
Exercised	(4,140,627)	7.18		
Forfeited	(4,717,990)	14.04		
Outstanding at June 30, 2006	85,694,978	$ 12.89	5.2	$ 193,671
Exercisable at the end of the period	65,572,116	$ 14.19	4.2	$ 118,358

(1) The aggregate intrinsic value is based on the market price of Emdeon s Common Stock on June 30, 2006, which was $12.41 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 June 30, 2006.

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 also 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.

	Six Months Ended June 30,	
	2006	2005
Expected dividend yield	0%	0%
Expected volatility	0.38	0.50
Risk free interest rate	4.56%	3.37%
Expected term (years)	4.46	3.25 - 5.50
Weighted average fair value of options granted during the period	$3.47	$3.58

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

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

continued employment on the applicable vesting dates. The following table summarizes the activity of non-vested Emdeon Restricted Stock for the six months ended June 30, 2006:

	Shares	Weighted Average Grant Date Fair Value
Beginning balance at January 1, 2006	1,042,557	$ 8.24
Granted	980,010	9.13
Vested	(290,999)	8.68
Forfeited	(50,252)	8.87
Ending balance at June 30, 2006	1,681,316	$ 8.66

Proceeds received from the exercise of options to purchase Emdeon Common Stock were $18,391 and $29,743 for the three and six months ended June 30, 2006, respectively, and $16,677 and $30,614 for the three and six months ended June 30, 2005, 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 $10,272 and $18,860 for the three and six months ended June 30, 2006, respectively, and $17,235 and $34,589 for the three and six months ended June 30, 2005, respectively. The intrinsic value of these stock options and shares of Emdeon Restricted Stock awards are currently deductible for tax purposes. However, these tax benefits were not realized as the Company has net operating loss carryforwards.

WebMD Plan

During September 2005, WHC adopted the 2005 Long-Term Incentive Plan (the WHC Plan). The maximum number of shares of WHC Class A Common Stock that may be subject to options or restricted stock awards under the WHC Plan is 7,130,574, subject to adjustment in accordance with the terms of the WHC Plan. WHC had an aggregate of 1,678,272 shares of Class A Common Stock available for grant under the WHC Plan at June 30, 2006.

Stock Options

Generally, options under the WHC Plan 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 WHC Plan 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 WHC Plan for the six months ended June 30, 2006:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value(1)
Outstanding at January 1, 2006	4,533,100	$ 18.31		
Granted	680,450	36.79		
Forfeited	(198,725)	21.30		
Outstanding at June 30, 2006	5,014,825	$ 20.70	9.3	$ 133,386

Exercisable at the end of the period	$	$

(1) The aggregate intrinsic value is based on the market price of WHC s Class A Common Stock on June 30, 2006, which was $47.30 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 June 30, 2006.

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EMDEON CORPORATION
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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.

	Six Months Ended June 30, 2006
Expected dividend yield	0%
Expected volatility	0.60
Risk free interest rate	4.79%
Expected term (years)	3.26
Weighted average fair value of options granted during the period	$16.79

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 non-vested WHC Restricted Stock for the six months ended June 30, 2006:

	Shares	Weighted Average Grant Date Fair Value
Beginning balance at January 1, 2006	376,621	$ 17.55
Granted	62,443	39.01
Vested	(263)	39.00
Forfeited	(1,587)	39.00
Ending balance at June 30, 2006	437,214	$ 20.53

Other

In addition, at the time of the WHC initial public offering, 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 $85 and $170 of stock-based compensation expense during the three and six months ended June 30, 2006, respectively, in connection with these issuances.

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

June 30, 2006, a total of 7,443,058 shares of Emdeon Common Stock were reserved for issuance under the ESPP. The ESPP, as amended in 2000, 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 167,142 and 184,074 shares issued under the ESPP during the six months ended June 30, 2006 and 2005, respectively.

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EMDEON CORPORATION
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Summary of Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Emdeon Plans:				
Stock options	$ 5,833	$ 44	$ 11,609	$ 418
Restricted stock	1,061	672	2,112	1,949
WHC Plan:				
Stock options	4,941		9,387	
Restricted stock	1,030		1,989	
Employee Stock Purchase Plan	150		295	
Other	85		170	
Total stock-based compensation expense	$ 13,100	$ 716	$ 25,562	$ 2,367
Included in:				
Cost of operations	$ 3,709	$	$ 6,815	$
Development and engineering	587		988	
Sales, marketing, general and administrative	8,804	716	17,759	2,367
Total stock-based compensation expense	$ 13,100	$ 716	$ 25,562	$ 2,367

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 June 30, 2006, approximately $39,846 and $35,899 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 1.41 years and 1.82 years, related to the Emdeon Plans and the WHC Plan, respectively.

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 for the three and six months ended June 30, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income as reported	$ 16,166	$ 26,015
Add: Stock-based employee compensation expense included in reported net income	716	2,367
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(8,828)	(19,368)
Pro forma net income	$ 8,054	$ 9,014

Net income per common share:					
Basic and diluted	as reported	$	0.05	$	0.08
Basic and diluted	pro forma	$	0.02	$	0.03

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business Combinations

2006 Acquisitions

On June 13, 2006, the Company acquired 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 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 $21,786 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 $4,000 relating to customer relationships with estimated useful lives of three years and $4,500 relating to acquired technology with an estimated useful life of five 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 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 $25,382, comprised of $24,682 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 $18,228 and an intangible asset subject to amortization of $9,000 were recorded. The goodwill and intangible asset recorded will not be deductible for tax purposes. The intangible asset recorded was content with an estimated useful life of three 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 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 $14,717 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 tradename 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.

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EMDEON CORPORATION
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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 $24,611 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.

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
2006						
Summex	$1,064	$(1,173)	$ 14	$8,500	$21,786	$30,191
eMedicine	1,717	(2,612)	(951)	9,000	18,228	25,382
2005						
Conceptis	2,893	(2,866)	(1,025)	6,140	14,717	19,859
HealthShare	1,925	(4,622)	(429)	8,500	24,611	29,985

Unaudited Pro Forma Information

The following unaudited pro forma financial information for the six months ended June 30, 2006 and 2005 gives effect to the acquisitions of Summex, eMedicine, Conceptis and HealthShare, including the amortization of intangible assets, as if the acquisitions had all 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.

	Six Months Ended June 30,	
	2006	2005
Revenue	$ 697,203	$ 641,088
Net income	$ 37,883	$ 22,638
Basic and diluted income per common share	$ 0.13	$ 0.07

4. 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 services provided by the Company s Emdeon Business Services segment to the

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customer base within the Company s Emdeon Practice Services segment and are reflected at rates comparable to those charged to third parties for comparable services. To a lesser extent, inter-segment revenue includes sales of certain WebMD services 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 evaluation of strategic alternatives for the Emdeon Business Services and Emdeon Practice Services segment (Advisory expense); a charge related to the redemption of $300,000 3 1/4 % Convertible Subordinated Notes; non-cash advertising expense related to advertising acquired in exchange for the Company s equity securities; and 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 stock-based compensation expense associated with the adoption of SFAS 123R.

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

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, Emdeon Business Services provides clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. Emdeon Business Services also provides decision support solutions, data warehousing solutions and consulting services to governmental, Blue Cross Blue Shield and commercial healthcare payers and performs software maintenance and consulting services for governmental agencies involved in healthcare.

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

WebMD provides health information services to consumers, physicians, healthcare professionals, employers and health plans through public and private online portals and health-focused publications. WebMD s public network of health portals enables consumers and physicians to readily access health information relevant to their specific areas of interest or specialty. WebMD s public portals sell advertising and sponsorship programs, including online continuing medical education (CME) services, to companies interested in reaching consumers and physicians online, including pharmaceutical, biotechnology, medical device and consumer products companies. WebMD s private portals are licensed to employers and health plans for use by their employees and members and provide access to personalized health and benefit information and decision support services. WebMD also provides related services for use by such employees and members, including lifestyle education and personalized telephone health coaching as a result of the acquisition of Summex on June 13, 2006. In addition, WebMD provides offline CME services and publishes medical reference textbooks, healthcare provider directories and *WebMD the Magazine,* a consumer magazine distributed to physician office waiting rooms.

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

Corporate includes services shared across all operating segments, such as executive personnel, accounting, tax, treasury, legal, human resources, risk management and certain information technology

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Reclassification of Segment Information. In connection with the initial public offering of WHC, the Company entered into a services agreement 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 receives an amount that reasonably approximates its cost of providing services to WHC. The Company s segment reporting has been modified to reflect the services fee it charges to WHC as an increase to the expenses of the WebMD segment and an offsetting reduction to the expenses in the Corporate segment. In accordance with SFAS 131, the Company has reclassified all prior period segment information to conform to the current period presentation. The services fee charged to the WebMD segment was $845 and $1,684 for the three and six months ended June 30, 2006, respectively, and $1,557 and $3,178 for the three and six months ended June 30, 2005, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue				
Emdeon Business Services	$ 206,943	$ 191,514	$ 408,097	$ 377,247
Emdeon Practice Services	77,272	78,596	152,978	151,614
WebMD	56,612	40,465	106,663	74,040
Porex	22,659	20,397	43,246	40,253
Inter-segment eliminations	(8,605)	(8,416)	(16,984)	(16,664)
	$ 354,881	$ 322,556	$ 694,000	$ 626,490
Earnings before interest, taxes, non-cash and other items				
Emdeon Business Services	$ 49,598	$ 40,420	$ 92,791	$ 78,673
Emdeon Practice Services	12,119	8,183	22,292	12,580
WebMD(a)	9,599	2,793	16,126	6,023
Porex	7,045	6,064	12,599	11,461
Corporate(a)	(11,628)	(11,742)	(22,902)	(23,747)
	66,733	45,718	120,906	84,990
Interest, taxes, non-cash and other items				
Depreciation and amortization	(19,381)	(17,541)	(38,309)	(34,045)
Non-cash stock-based compensation	(13,100)	(716)	(25,562)	(2,367)
Non-cash advertising	(1,189)	(2,386)	(2,794)	(5,013)
Legal expense	(275)	(4,283)	(817)	(8,443)
Advisory expense	(4,104)		(4,104)	
(Loss) gain on investments		190		(3,642)
Loss on redemption of convertible debt		(1,902)		(1,902)
Interest income	4,435	3,936	8,854	8,257
Interest expense	(4,668)	(3,895)	(9,359)	(8,676)
Income tax provision	(5,434)	(2,955)	(9,996)	(3,144)
Minority interest in WebMD Health Corp., net of tax	164		793	
Net income	$ 23,181	$ 16,166	$ 39,612	$ 26,015

(a) Earnings before interest, taxes, non-cash and other items for the prior periods, for the Corporate and WebMD segments, have been reclassified to conform to the current period presentation for service fees charged to the WebMD segment from Corporate.

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EMDEON CORPORATION
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The following table represents the Company s operating segment revenue by products and services:

	Three Months Ended June 30, 2006		Three Months Ended June 30, 2005	
	Services	Products	Services	Products
Emdeon Business Services	$ 205,103	$ 1,840	$ 189,513	$ 2,001
Emdeon Practice Services	62,182	15,090	62,802	15,794
WebMD	54,909	1,703	38,727	1,738
Porex		22,659		20,397
Inter-segment eliminations	(8,428)	(177)	(8,313)	(103)
Total revenue	$ 313,766	$ 41,115	$ 282,729	$ 39,827

	Six Months Ended June 30, 2006		Six Months Ended June 30, 2005	
	Services	Products	Services	Products
Emdeon Business Services	$ 404,186	$ 3,911	$ 372,286	$ 4,961
Emdeon Practice Services	124,798	28,180	122,702	28,912
WebMD	103,124	3,539	70,740	3,300
Porex		43,246		40,253
Inter-segment eliminations	(16,762)	(222)	(16,421)	(243)
Total revenue	$ 615,346	$ 78,654	$ 549,307	$ 77,183

The following table provides additional information regarding the composition of revenue for each of the Company s operating segments for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31, 2005		Year Ended December 31, 2004		Year Ended December 31, 2003	
	Services	Products	Services	Products	Services	Products
Emdeon Business Services	$ 749,862	$ 8,989	$ 676,879	$ 9,706	$ 497,959	$ 7,770
Emdeon Practice Services	245,144	59,031	234,648	61,467	222,542	80,098
WebMD	160,410	7,828	127,125	7,192	104,751	5,914
Porex	1,200	77,924	1,100	75,999	900	71,040
Inter-segment eliminations	(32,970)	(539)	(33,560)	(205)	(26,884)	(110)
Total revenue	$ 1,123,646	$ 153,233	$ 1,006,192	$ 154,159	$ 799,268	$ 164,712

5. Stockholders Equity

Stock Repurchase Program

On January 23, 2006, the Company announced the authorization of a new stock repurchase program (the Program), at which time the Company was authorized to use up to $48,000 to purchase shares of Emdeon 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 Program was increased to $68,000 and then further increased on March 28, 2006 to $83,000. As of June 30, 2006, the Company had repurchased 7,329,305 shares at a cost of approximately $71,843 under the Program. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying consolidated balance sheets.

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EMDEON CORPORATION
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On November 23, 2005, the Company announced the termination of the prior repurchase program, under which no repurchases were made during the three and six months ended June 30, 2005.

6. Investments

As of June 30, 2006 and December 31, 2005, the Company s short-term investments consisted of certificates of deposit, auction rate securities 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. The following table summarizes the amortized cost basis and estimated fair value of the Company s investments:

	June 30, 2006		December 31, 2005	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Cash and cash equivalents	$ 92,210	$ 92,210	$159,510	$159,510
Short-term investments	297,179	296,750	268,109	267,387
Marketable equity securities long-term	1,489	2,944	1,492	4,481

As of June 30, 2006, the gross unrealized losses related to short-term debt securities are primarily due to a decrease in the fair value of these instruments as a result of an increase in interest rates. These securities have been in a loss position for less than twelve months. The Company has determined that the gross unrealized losses on its short-term debt securities at June 30, 2006 are temporary in nature.

7. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from net income, such as changes in unrealized holding gains on available-for-sale marketable securities and foreign currency translation adjustments. The following table presents the components of other comprehensive income (loss) for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Foreign currency translation gains (losses)	$ 1,062	$ (1,736)	$ 1,378	$ (2,658)
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses)	(991)	1,788	(1,241)	(2,095)
Less: reclassification adjustment for net gains (losses) realized in net income		190		(3,642)
Net unrealized gains (losses) on securities	(991)	1,598	(1,241)	1,547
Other comprehensive income (loss)	71	(138)	137	(1,111)
Net income	23,181	16,166	39,612	26,015
Comprehensive income	$ 23,252	$ 16,028	$ 39,749	$ 24,904

The foreign currency translation gains (losses) are not currently adjusted for income taxes as they primarily related to permanent investments in non-U.S. subsidiaries. Additionally, there were no income taxes provided for the unrealized holdings gains (losses) on securities as a full valuation allowance has been recorded against all domestic net deferred tax assets.

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EMDEON CORPORATION
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Accumulated other comprehensive income includes the following:

	June 30, 2006	December 31, 2005
Unrealized gains on securities	$ 1,026	$ 2,267
Foreign currency translation gains	6,718	5,340
Total accumulated other comprehensive income	$ 7,744	$ 7,607

8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2005 and the six months ended June 30, 2006 are as follows:

	Emdeon Business Services	Emdeon Practice Services	WebMD	Porex	Total
Balance as of January 1, 2005	$ 734,468	$ 179,543	$ 53,169	$ 43,384	$ 1,010,564
Acquisitions during the period			36,079		36,079
Contingent consideration for prior period acquisitions	19,379	30	10,638		30,047
Tax reversals(a)	(674)			(600)	(1,274)
Adjustments to finalize purchase price allocations	(307)		783	383	859
Effects of exchange rates				(726)	(726)
Balance as of January 1, 2006	752,866	179,573	100,669	42,441	1,075,549
Acquisitions during the period			38,628		38,628
Contingent consideration for prior period acquisitions(b)	(1,913)				(1,913)
Tax reversals(a)	(5,037)	(113)			(5,150)
Adjustments to finalize purchase price allocations			3,082		3,082
Effects of exchange rates				325	325
Balance as of June 30, 2006	$ 745,916	$ 179,460	$ 142,379	$ 42,766	$ 1,110,521

(a) In accordance with EITF 93-7, Uncertainties Related to Income Taxes in a Purchase Business Combination, the Company increased goodwill and accrued liabilities by $65 for the Emdeon Business Services segment for the six months ended June 30, 2006, and reduced goodwill and accrued liabilities by $230 and $600 for the Emdeon Business Services and Porex segments, respectively, for the year ended December 31, 2005. These adjustments primarily related to the reevaluation of our tax liabilities and contingencies established in connection with certain acquisitions. Additionally, the Company reduced goodwill by $5,102 and $113 for the Emdeon Business Services and Emdeon Practice Services segments, respectively, for the six months ended June 30, 2006 and $444 for the Emdeon Business Services segment for the year ended December 31, 2005, as a result of the reversal of a portion of the income tax valuation allowances that were originally established in connection with the purchase accounting of prior acquisitions within those segments.

(b) During the six months ended June 30, 2006, the Company adjusted goodwill by $2,539 in connection with an over accrual of contingent consideration in the Emdeon Business Services segment. In addition, during the six months ended June 30, 2006, the Company made a contingent consideration payment in the amount of $626 for a Emdeon Business Services segment 2003 acquisition.

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Intangible assets subject to amortization consist of the following:

	June 30, 2006				December 31, 2005			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life(a)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Remaining Useful Life(a)
Customer relationship	$ 404,417	$ (263,782)	$ 140,635	10.5	$ 400,356	$ (256,319)	$ 144,037	11.1
Technology and patents	185,548	(118,182)	67,366	14.5	177,749	(110,893)	66,856	15.1
Trade names	58,456	(48,123)	10,333	7.8	57,516	(47,232)	10,284	8.0
Non-compete agreements, content and other	28,815	(8,936)	19,879	5.8	24,913	(5,580)	19,333	6.6
Total	$ 677,236	$ (439,023)	$ 238,213	11.1	$ 660,534	$ (420,024)	$ 240,510	11.7

(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 $9,567 and $18,992 for the three and six months ended June 30, 2006, respectively, and $9,745 and $18,731 for the three and six months ended June 30, 2005, respectively. Aggregate amortization expense for intangible assets is estimated to be:

Year ending December 31, 2006 (July 1st to December 31st)	$ 19,887
2007	39,085
2008	35,313
2009	23,865
2010	16,435
Thereafter	103,628

9. Commitments and Contingencies

Litigation Regarding Distribution of Shares in Healtheon Initial Public Offering

As previously disclosed, in the summer and fall of 2001, 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) in the United States District Court for the Southern District of New York. Three of these suits also named the Company and certain former officers and directors of the Company 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.

After mediation, 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 that 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. 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 August 31, 2005, the court ordered that notice be

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mailed to the class members beginning on November 15, 2005, and no later than January 15, 2006, and scheduled a hearing for final approval of the settlement for April 24, 2006. On April 24, 2006, the court held a hearing for final approval of the settlement. The court has not yet decided the approval motion.

As is usual in securities class action settlements, the Company has received a number of requests for exclusion (or opt-outs) from the settlement. Although the Company is not aware of any lawsuits filed against it by any opt-outs, the Company cannot predict whether any will file suit. The Company would vigorously defend against any claims filed by opt-outs.

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

In April 2004, the Company, through its Emdeon Business Services segment, acquired Dakota Imaging, Inc., a provider of automated healthcare claims processing technology and business process outsourcing services. As previously disclosed, on April 6, 2005, the Company s Dakota subsidiary terminated, for cause, the employment of Sandeep Goel, who was its President, and Pradeep Goel, who was its Chief Operating Officer and Chief Technology Officer, each of whom was also a shareholder of Dakota prior to its acquisition by Emdeon Business Services. In addition, Dakota filed a complaint in the Delaware Court of Chancery against Sandeep Goel and Pradeep Goel alleging breach of their respective employment agreements and related causes of action. The case was later removed to the United States District Court for the District of Delaware.

On May 9, 2005, the defendants filed an Answer and Counterclaim against Dakota. In the Answer and Counterclaim, defendants allege that Dakota did not have the right to terminate them for cause and that Dakota violated provisions of their employment agreements. Defendants seek damages for the alleged breaches of their employment agreements. Defendants also allege that Dakota, as well as the Company and Envoy Corporation, a subsidiary of the Company, violated the Merger Agreement pursuant to which Envoy acquired Dakota. Defendants allege that the terminations and other actions taken by the Company, Envoy and Dakota interfered with the defendants rights with respect to potential contingent earn-out consideration under provisions contained in the Merger Agreement. The Merger Agreement provides for contingent consideration based on achievement of certain financial milestones in specified time periods and defendants seek damages in excess of $25 million, the maximum aggregate amount of contingent consideration that could be earned under the earn-out provisions of the Merger Agreement. The Company, Envoy and Dakota have filed motions to dismiss the counterclaims in whole or in part. The Court has denied the motions without prejudice, giving Envoy and Dakota leave to re-file the motions after engaging in non-binding mediation. In April 2006, the parties engaged in a non-binding mediation of all disputes before a Federal magistrate judge in the United States District Court for the District of Delaware. The mediation did not result in resolution of any matters in dispute.

The amount of the contingent payment for the first year of the earn-out under the Merger Agreement is also in dispute between Envoy and Sandeep Goel and Pradeep Goel, as representatives for the former shareholders of Dakota. Envoy believes that no payment is due for that period. In accordance with the provisions of the Merger Agreement, that dispute has been submitted for arbitration before a designated accounting firm. The arbitrators have not yet made a determination regarding this dispute. Sandeep and Pradeep Goel, as representatives of the former shareholders, have recently notified Envoy that they disagree with Envoy s calculation of the contingent payment for the second year of the earn-out. Envoy believes that no payment is due for the second year.

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

As previously disclosed, 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

EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, a lawsuit was filed by Dr. Ari Weitzner individually, and as a class action, 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 claims that faxes allegedly sent by NPD, which publishes *The Little Blue Book*, were sent in violation of the TCPA. The lawsuit potentially seeks damages in excess of $5,000. The Court had temporarily stayed the lawsuit pending resolution of relevant issues in a related case. On February 21, 2006, the Court lifted the stay. The parties are currently conducting discovery. WHC expects to oppose certification as a class action when discovery on that matter is completed.

M.D. On-Line, Inc. Litigation

As previously disclosed, August 18, 2005, a lawsuit was filed by M.D. On-Line, Inc. in the U.S. District Court for the District of New Jersey against the Company and two of its subsidiaries. The complaint alleged claims of Federal trademark infringement, unfair competition and false designation of origin and state trademark infringement and unfair competition as a result of use of the name Emdeon by the Company and its subsidiaries. The complaint sought monetary damages in excess of $150 and an injunction to cause the Company and its subsidiaries to cease using the name Emdeon. A hearing on M.D. On-Line s preliminary injunction application was held on September 22, 2005. After hearing argument from both parties, the Court denied M.D. On-Line s application. The Court issued a written opinion and order denying the preliminary injunction application on October 6, 2005. On May 4, 2006, the Court dismissed the action without prejudice.

10. Subsequent Events

On July 18, 2006, the Company acquired Interactive Payer Network, Inc. (IPN), a privately held provider of healthcare electronic data interchange services. The Company paid approximately $4,000 in cash at closing and has 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 purchase is subject to customary post-closing adjustments. The results of operations of IPN will be included in the Emdeon Business Services segment from July 18, 2006, the closing date of the acquisition.

On July 19, 2006, the Company entered into a definitive agreement to acquire the interactive medical education, promotion and physician recruitment businesses of Medsite, Inc. (Medsite) for a purchase price of approximately $41,000 in cash. The purchase price is subject to customary post-closing adjustments. The results of operations of Medsite will be included in the WebMD segment upon closing, which is expected to occur during the third quarter of 2006.

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EMDEON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 8, 2006, the Company entered into a definitive agreement for the sale of its Emdeon Practice Services segment to Sage Software, Inc., an indirect wholly-owned subsidiary of The Sage Group plc. The purchase price is $565,000 in cash, and will be subject to customary adjustments based on net working capital at closing. The parties have agreed that $35,000 of the purchase price will be placed into escrow as security for the Company s indemnification obligations under the transaction agreements, one third of which is scheduled to be released twelve months after closing and two-thirds of which is scheduled to be released eighteen months after closing. At the closing, the Company will sell to Sage Software all of the outstanding capital stock of Emdeon Practice Services, Inc., which owns all of the other subsidiaries included in the Emdeon Practice Services segment. The closing is expected to occur in September 2006, subject to satisfaction of customary closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

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

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

Overview

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

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

Critical Accounting Policies and Estimates. This section discusses those accounting policies that both are considered important to our financial condition and results of operations, and require us to exercise subjective or complex judgments in 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 contained in our 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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.

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, as well as a discussion of our outstanding debt and commitments, that existed as of June 30, 2006.

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

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

Introduction

Emdeon Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. 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 (Emdeon) in October 2005. The change to Emdeon was made in connection with an initial public offering by WebMD Health Corp. (WHC), a subsidiary we formed to act as a holding company for the business of our 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 June 30, 2006, we owned 85.8% of the aggregate amount of outstanding shares of WHC s Class A Common Stock and Class B Common Stock. As such, we consolidate the minority stockholders 14.2% share of equity and net income of our WebMD segment.

Operating Segments

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

Emdeon Business Services. We provide 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, we provide clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. We also provide decision support solutions, data warehousing solutions and consulting services to governmental, Blue Cross Blue Shield and commercial healthcare payers and perform software maintenance and consulting services for governmental agencies involved in healthcare.

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

WebMD. We provide health information services to consumers, physicians, healthcare professionals, employers and health plans through our public and private online portals and health-focused publications. Our public network of health portals enables consumers and physicians to readily access health information relevant to their specific areas of interest or specialty. Our public portals sell advertising and sponsorship programs, including online continuing medical education (CME) services, to companies interested in reaching consumers and physicians online, including pharmaceutical, biotechnology, medical device and consumer products companies. Our private portals are licensed to employers and health plans for use by their employees and members and provide access to personalized health and benefit information and decision support services. We also provide related services for the use by such employees and members, including lifestyle education and personalized telephonic health coaching as a result of the acquisition of Summex on June 13, 2006. In addition, we provide offline CME services and publish medical reference textbooks, healthcare provider directories and *WebMD the Magazine,* a consumer magazine distributed to physician office waiting rooms.

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

Corporate. Our Corporate segment provides corporate services across all our other 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.

Recent Developments

Pending Sale of Emdeon Practice Services Segment. On August 8, 2006, we entered into a definitive agreement for the sale of our Emdeon Practice Services segment to Sage Software, Inc., an indirect wholly-owned subsidiary of The Sage Group plc. The purchase price is $565,000 in cash, and will be subject to customary adjustments based on net working capital at closing. The parties have agreed that

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$35,000 of the purchase price will be placed into escrow, one third of which is scheduled to be released twelve months after closing and two-thirds of which is scheduled to be released eighteen months after closing as security for Emdeon s indemnification obligations under the transaction agreements. At the closing, we will sell to Sage Software all of the outstanding capital stock of Emdeon Practice Services, Inc., which owns all of the other companies included in our Emdeon Practice Services segment. We expect the closing to occur in September 2006, subject to satisfaction of customary closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Emdeon Business Services will continue to be the exclusive provider of electronic healthcare transaction services and patient statement services for Emdeon Practice Services through 2013. In addition, Emdeon Practice Services will continue its existing relationship with WebMD and will exclusively integrate WebMD s personal health record with its clinical products, including its electronic medical record.

Emdeon and Sage will make an IRC Section 338(h)(10) election and will treat this transaction as a sale of assets for tax purposes. We expect to recognize a taxable gain on the sale of our Emdeon Practice Services segment and to utilize a portion of our federal net operating loss (NOL) carryforwards to offset the gain on this transaction. Under our Tax Sharing Agreement with WHC, we have agreed to reimburse WHC for any of its NOL carryforwards utilized by us in this transaction at the current federal statutory tax rate of 35%. We currently estimate that the amount of WHC s NOL carryforwards to be utilized in this transaction will be approximately $240,000 to $260,000 resulting in a cash reimbursement to WHC of $84,000 to $91,000. Our estimates of the amount of WHC s NOL carryforwards to be utilized and of the related reimbursement is based on various assumptions and will not be finalized until the filing of Emdeon s 2006 consolidated tax return.

Evaluation of Strategic Alternatives Related to Emdeon Business Services Segment. On February 16, 2006, we announced that, in connection with inquiries received from several third parties expressing an interest in acquiring our Emdeon Business Services and Emdeon Practice Services segments, our Board of Directors authorized commencing a process to evaluate strategic alternatives relating to these businesses. We engaged The Blackstone Group L.P. and Citigroup Global Markets Inc. as our financial advisors to assist the Board in this process. As described above, as a result of this process, we have entered into an agreement to sell Emdeon Practice Services to Sage Software. We continue to explore strategic alternatives for our Emdeon Business Services segment. The ViPS business unit, currently part of Emdeon Business Services, will not be included in this process and will be retained by Emdeon. There can be no assurance that the exploration of strategic alternatives will result in any definitive agreement or transaction with respect to Emdeon Business Services and our Board may determine to retain Emdeon Business Services.

Acquisition of Summex Corporation. On June 13, 2006, through WHC, we acquired 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 Summex programs complement the online health and benefits platform that WebMD provides to employers and health plans. Summex s team of professional health coaches work one-on-one with employees and plan members to change high-risk behaviors that lead to illness and high medical costs. 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, 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 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.

Acquisition of Interactive Payer Network, Inc. On July 18, 2006, we acquired Interactive Payer Network, Inc. (IPN), a privately held provider of healthcare electronic data interchange services. The acquisition extended the breadth of Emdeon Business Services offering for its payer and preferred provider organization (PPO) clients, including with respect to automated routing of claims to PPOs for pricing

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and the subsequent distribution of claims to payers for adjudication and payment. We paid approximately $4,000 in cash at closing and have 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 purchase price is subject to customary post-closing adjustments. The results of operations of IPN will be included in our Emdeon Business Services segment from July 18, 2006, the closing date of the acquisition.

Acquisition of Medsite. On July 19, 2006, a subsidiary of WHC entered into an agreement to acquire the interactive medical education, promotion and physician recruitment businesses of Medsite, Inc. (Medsite) for a purchase price of approximately $41,000 in cash. Medsite provides e-detailing services for pharmaceutical, medical device and healthcare companies, including program development, targeted recruitment and online distribution and delivery. Medsite leverages its proprietary physician database for online recruitment and participation into its programs. The results of operations of Medsite will be included in the WebMD segment upon closing, which is expected during the third quarter of 2006.

Background Information on Certain Trends and Strategies

Diversification of Emdeon Business Services. Submission of claims electronically assists healthcare payers in reducing the cost of processing and servicing claims and can expedite the reimbursement process for providers. However, this is just a starting point for increasing administrative efficiency. We are continuing our efforts to transform Emdeon Business Services from an electronic transactions clearinghouse to a provider of more comprehensive reimbursement cycle management services designed to provide healthcare payers and providers not only with connectivity, but also with the information and data necessary to ensure rapid and accurate claim processing, remittance and payment.

Our services for payers now also include conversion of paper claims to electronic ones and related document management services, as well as paid-claims communication services. We also act as the electronic transactions gateway for some of our payer customers, which allows us to work more closely with them to increase the quantity and improve the quality of the electronic transactions coming into their systems. In addition, by outsourcing patient encounter transaction processes to us, payers can reduce their capital expenses and operating costs.

Our services for providers now also include systems to validate patient insurance benefits electronically, to edit and submit electronic claims, to manage remittance advices, to post payments automatically and to process patient statements.

Increased Use of Information Technology for Clinical Purposes. Healthcare providers are under pressure to increase quality and reduce medical errors. While information technology systems and electronic transaction services are used by many physician offices for administrative and financial applications, their use in clinical workflow is much more limited, especially in smaller practices. However, we believe this is changing. Emdeon Practice Services and Emdeon Business Services are continuing to target the markets for clinical applications as one of their priorities. While it will be a long time before most physicians go to a paperless office, more physicians are beginning to incorporate information technology into their clinical workflow. Healthcare payers and governmental authorities are increasingly taking steps to encourage physicians to use information technology in their treatment of patients and clinical processes. On July 18, 2006, the Certification Commission for Healthcare Information Technology (CCHIT^{sm}), an independent, nonprofit, public/private organization, announced that Emdeon Practice Services is CCHIT Certified^{sm} for its product, Intergy EHR, and meets CCHIT ambulatory electronic health record (EHR) criteria for 2006. Ambulatory EHRs are designed for physician offices and clinics.

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The CCHIT Certified mark a seal of approval for EHR products provides the first consensus-based, consistent benchmark for ambulatory products. We view the CCHIT certification process as an important step towards driving broader adoption of electronic health records.

Since clinical applications are generally designed for use by physicians, nurses and other healthcare providers, the markets for those applications present different challenges than the markets for administrative and financial applications, which are used mostly by administrative personnel, billing coordinators and financial managers. Emdeon Business Services and Emdeon Practice Services have been and expect to continue to invest in the additional resources necessary to meet the challenges involved in developing and implementing clinical applications. We believe that success in the markets for clinical applications is becoming increasingly important in competing in the markets for administrative and financial applications.

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. 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of Emdeon s financial condition and results of operations are based upon our Consolidated Financial Statements and Notes to Consolidated Financial Statements, which were prepared in conformity with U.S. generally accepted accounting principles. The preparation of financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience, current business factors, and various other assumptions that we believe are necessary to 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, certain accrued expenses, contingencies, litigation and the value attributed to employee stock options and other stock-based awards.

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

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

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

The professional consulting services we provide to certain governmental agencies are typically billed on a cost-plus fee structure.

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

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

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

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

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

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 our healthcare management tools and private portals is recognized ratably over the term of the applicable agreement. Revenue from the sponsorship of CME is recognized over the period we substantially complete 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 their relative fair values, 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.

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

Long-Lived Assets Our long-lived assets consist of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets arise from the acquisitions we have made. The amount assigned to intangible assets is subjective and based on our estimates of the future benefit of the intangible asset using accepted valuation techniques, such as discounted cash flow and replacement cost models. Our long-lived assets, excluding goodwill, are amortized over their estimated useful lives, which we determined based on the consideration of several factors, including the period of time the asset is expected to remain in service. We evaluate the carrying value and remaining useful lives of long-lived assets, excluding goodwill, whenever indicators of impairment are present. We evaluate the carrying value of goodwill annually, or whenever indicators of impairment are present. We use a discounted cash flow approach to determine the fair value of goodwill. There was no impairment of goodwill noted as a result of our impairment testing in 2005.

Investments Our investments, at June 30, 2006, consisted principally of certificates of deposit, auction rate securities, U.S. Treasury Notes and marketable equity securities in publicly traded companies. Each reporting period we evaluate the carrying value of our investments and record a loss on investments when we believe an investment has experienced a decline in value that is other than temporary. Our investments are classified as available-for-sale and are carried at fair value. We do not recognize gains on an investment until sold. Unrealized gains and losses are recorded as a component of accumulated other comprehensive income. 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.

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Deferred Tax Assets Our deferred tax assets are comprised primarily of net operating loss carryforwards. At December 31, 2005, we had net operating loss carryforwards of approximately $2.1 billion. These loss carryforwards may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. As of June 30, 2006, a valuation allowance was established for all domestic net deferred tax assets because of the uncertainty of realization of the deferred tax assets due to a lack of 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 our effective tax rate will be reduced. The valuation allowance 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 the varying application of statutes, rules, regulations and interpretations. Our estimates of tax contingencies reflect assumptions and judgments about potential actions by taxing jurisdictions. We believe that these assumptions and judgments are reasonable; however, our accruals may change in the future due to new developments in each matter and the ultimate resolution of these matters may be greater or less than the amount that we have accrued.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standard Board (FASB) issued FASB Interpretation No. 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 FASB Statement 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 cumulative effect of applying FIN 48 should be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. 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.

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Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006		2005		2006		2005	
	$	%	$	%	$	%	$	%
Revenue	354,881	100.0	322,556	100.0	694,000	100.0	626,490	100.0
Costs and expense:								
Costs of operations	197,146	55.5	181,950	56.4	392,413	56.6	354,113	56.5
Development and engineering	15,283	4.3	14,457	4.5	30,197	4.4	29,097	4.6
Sales, marketing, general and administrative	90,008	25.3	83,533	25.9	178,840	25.8	165,670	26.4
Depreciation and amortization	19,381	5.5	17,541	5.4	38,309	5.5	34,045	5.4
Legal expense	275	0.1	4,283	1.3	817	0.1	8,443	1.3
Advisory expense	4,104	1.2			4,104	0.6		
Loss (gain) on investments			(190)				3,642	0.6
Loss on redemption of convertible notes			1,902	0.6			1,902	0.4
Interest income	4,435	1.2	3,936	1.2	8,854	1.3	8,257	1.3
Interest expense	4,668	1.3	3,895	1.2	9,359	1.3	8,676	1.4
Income before income tax provision and minority interest	28,451	8.0	19,121	5.9	48,815	7.0	29,159	4.7
Income tax provision	5,434	1.5	2,955	0.9	9,996	1.4	3,144	0.5
Minority interest in WebMD Health Corp., net of tax	(164)				(793)	(0.1)		
Net income	$ 23,181	6.5	$ 16,166	5.0	$ 39,612	5.7	$ 26,015	4.2

Revenue is derived from our four business segments: Emdeon Business Services, Emdeon Practice Services, WebMD and Porex. 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. Emdeon Business Services also provides clinical communications services that enable physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. In addition, through ViPS, Emdeon Business Services provides decision support solutions, data warehousing solutions and consulting services to governmental, Blue Cross Blue Shield and commercial healthcare payers and performs software maintenance and consulting services for governmental agencies involved in healthcare. A significant portion of Emdeon Business Services revenue is generated from the country s largest national and regional healthcare payers.

Emdeon Practice Services provides information technology systems for healthcare providers, including administrative, financial and clinical applications, primarily under The Medical Manager, Intergy, HealthPro XL, Medware and Emdeon Network Services brands. Emdeon Practice Services also provides support and maintenance services related to the hardware and software associated with its practice management and electronic medical records systems and other applications. 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. Our Porex revenue includes the sale of porous plastic components used to control the flow of fluids and gases for use in healthcare, industrial and consumer applications, as well as finished products used in the medical device and surgical markets.

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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, cost of hardware related to the sale of practice management systems, a portion of facilities expenses, leased facilities and personnel costs, sales commissions paid to certain distributors of our Emdeon Business Services products and non-cash expenses related to content and distribution services. In addition, cost of operations includes raw materials, direct labor and manufacturing overhead, such as fringe benefits and indirect labor related to our Porex segment.

Development and engineering expense consists primarily of salaries and related expenses, 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 expense consists 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.

Advisory expense includes professional fees, primarily consisting of legal, accounting and financial advisory services, related to the evaluation of strategic alternatives for our Emdeon Business Services and Emdeon Practice Services segments.

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

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

Non-cash 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 primarily related to restricted stock awards and stock option modifications, as well as the amortization of deferred compensation related to certain acquisitions in 2000. Non-cash stock-based compensation expense is included in cost of operations, development and engineering, and sales, marketing, general and administrative expense within the accompanying consolidated

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statements of operations. The following table summarizes the non-cash stock-based compensation expense for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Stock-based compensation expense included in:				
Cost of operations	$ 3,709	$	$ 6,815	$
Development and engineering	587		988	
Sales, marketing, general and administrative	8,804	716	17,759	2,367
Total	$ 13,100	$ 716	$ 25,562	$ 2,367

The following discussion includes a comparison of the results of operations for the three and six months ended June 30, 2006 to the three and six months ended June 30, 2005.

Revenue

Revenue for the three months ended June 30, 2006 was $354,881, compared to $322,556 in the prior year period. Our revenue increased by $32,325 or 10.0% for the three months ended June 30, 2006. The WebMD, Emdeon Business Services and Porex segments were responsible for $16,147, $15,429 and $2,262, respectively, of the revenue increase for the quarter, which was partially offset by a decrease in revenue of $1,324 in the Emdeon Practice Services segment.

Revenue for the six months ended June 30, 2006 was $694,000, compared to $626,490 in the prior year period. Our revenue increased by $67,510 or 10.8% for the six months ended June 30, 2006. The WebMD, Emdeon Business Services, Porex and Emdeon Practice Services segments were responsible for $32,623, $30,850, $2,993 and $1,364, respectively, of the revenue increase for the six months ended June 30, 2006.

Acquisitions completed during 2006 and 2005 within our WebMD segment contributed $5,872 and $12,843 to the increase in revenue for the three and six months ended June 30, 2006, respectively. Also contributing to the increase in revenue was increased 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, revenue increased in our Emdeon Business Services segment as a result of an increase in postage rates that went into effect on January 8, 2006, growth in our patient statement and remittance and payment services, as well as our consulting services and software sales within our ViPS operation.

Costs and Expenses

Cost of Operations. Cost of operations was $197,146 and $392,413 for the three and six months ended June 30, 2006, respectively, compared to $181,950 and $354,113 in the prior year periods. Our cost of operations represented 55.5% and 56.6% of revenue for the three and six months ended June 30, 2006, compared to 56.4% and 56.5% for the three and six months ended June 30, 2005. Included in cost of operations are non-cash expenses related to stock-based compensation of $3,709 and $6,815 for the three and six months ended June 30, 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 expenses was $193,437 and $385,598 or 54.5% and 55.6% of revenue for the three and six months ended June 30, 2006, respectively. The increases in absolute dollars are primarily due to higher compensation expenses in our WebMD segment as a result of higher staffing levels, increased expenses related to recent WebMD acquisitions, the impact of the postal rate increase that went into effect on January 8, 2006 and increased expenses related to the delivery of our government consulting services within our ViPS operations. This decrease, as a percentage of revenue, is primarily the result of the combination of the increased revenue discussed above without a proportionate increase in cost. 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 $15,283 and $30,197 for the three and six months ended June 30, 2006, compared to $14,457 and $29,097 in the prior year periods. Our development and engineering expenses represented 4.3% and 4.4% of revenue for the three and six months ended June 30, 2006, compared to 4.5% and 4.6% for the three and six months ended June 30, 2005. The increase in development and engineering, in absolute dollars, is the result of stock-based compensation expense, as discussed above. Included in development and engineering expense for the three and six months ended June 30, 2006 is stock-based compensation of $587 and $988, respectively. Development and engineering expense, excluding stock-based compensation expenses, was $14,696 and $29,209, or 4.1% and 4.2% of revenue, for the three and six months ended March 31, 2006, respectively.

Sales, Marketing, General and Administrative. Sales, marketing, general and administrative expense was $90,008 and $178,840 for the three and six months ended June 30, 2006, compared to $83,533 and $165,670 in the prior year periods. Our sales, marketing, general and administrative expenses represented 25.3% and 25.8% of revenue for the three and six months ended June 30, 2006, compared to 25.9% and 26.4% of revenue for the three and six months ended June 30, 2005. Included in sales, marketing, general and administrative expense are non-cash expenses related to advertising services and stock-based compensation expense. Non-cash stock-based compensation expense was $8,804 and $17,759 for the three and six months ended June 30, 2006, compared to $716 and $2,367 in the prior year periods. As discussed above, the increase in stock-based compensation expense was due to the adoption of SFAS 123R on January 1, 2006. We expect stock-based compensation expense to be higher during 2006 than in prior years due to the adoption of this accounting standard. Non-cash expenses related to advertising services were $1,189 and $2,794 for the three and six months ended June 30, 2006, compared to $2,169 and $4,796 in the prior year periods. The decrease in non-cash advertising and distribution expense was the result of lower utilization of our prepaid advertising inventory during the three and six months ended June 30, 2006.

Sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, was $80,015 and $158,287 or 22.5% and 22.8% of revenue, for the three and six months ended June 30, 2006, compared to $80,648 and $158,507 or 25.0% and 25.3% of revenue in the prior year periods. The decrease in sales, marketing, general and administrative expense, excluding the non-cash expenses discussed above, as a percentage of revenue, is due to our ability to achieve an increase in revenue without incurring a proportionate increase in expenses, with the exception of certain increased staffing related expenses, directly attributable to the increased revenue as well as increased expenses related to recent acquisitions that were not included, or only partially included in the year ago period.

Depreciation and Amortization. Depreciation and amortization expense was $19,381 and $38,309 for the three and six months ended June 30, 2006, compared to $17,541 and $34,045 in the prior year periods. Depreciation and amortization expense represented 5.5% of revenue for the three and six months ended June 30, 2006, compared to 5.4% of revenue in both prior year periods. The increase, in absolute dollars, was primarily due to capital expenditures made in our Emdeon Business Services and, to a lesser extent, Emdeon Practice Services segment, as well as depreciation and amortization expenses relating to the acquisitions in our WebMD segment, which were not included, or only partially included, in the prior periods. These increases were offset by assets related to acquisitions completed in 2000 that became fully amortized during the last half of 2005.

Legal Expense. Legal expense was $275 and $817 for the three and six months ended June 30, 2006, compared to $4,283 and $8,443 in the prior year periods. 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 during the remainder of 2006, as compared to 2005, in part because existing insurance policies became available to cover the expenses of certain former officers and employees of Emdeon Practice Services upon their indictment in late 2005. In connection with the sale of Emdeon Practice Services to Sage Software announced on August 8, 2006, we have agreed to indemnify Sage Software with respect to this matter.

Advisory Expense. Advisory expense for the three and six months ended June 30, 2006 represents costs and expenses of $4,104 for professional fees, primarily consisting of legal, accounting and financial advisory services, related to the evaluation of strategic alternatives for the Emdeon Business Services and Emdeon Practice Services segment. We expect that these cost may continue to be significant during the quarter ending September 30, 2006.

Loss (Gain) on Investments. During the three months ended March 31, 2005, we recorded $4,251 for unrealized losses on marketable securities that we identified as securities to be liquidated in the event funds were needed for redemption of our $300,000 of 3 1/4% Convertible Subordinated Notes due 2007 (3 1/4 Notes). Also, included in other expense for the three and six months ended June 30, 2005 is $190 and $609 related to net gains on the sale of marketable securities.

Loss on Redemption of Convertible Notes. Loss on redemption of convertible debt for the three and six months ended June 30, 2005, represents a loss of $1,902 related to the redemption of the 3 1/4 % Notes on June 2, 2005.

Interest Income. Interest income was $4,435 and $8,854 during the three and six months ended June 30, 2006, compared to $3,936 and $8,257 in the prior year periods. The increase in both the three and six months ended June 30, 2006 is the result of higher average rate of return in 2006, partially offset by lower average investment balances.

Interest Expense. Interest expense was $4,668 and $9,359 for the three and six months ended June 30, 2006, compared to $3,895 and $8,676 in the prior year periods. The increase for both periods is due to the issuance of our $300,000 3 1/8% Convertible Notes due 2007 on August 24, 2005, offset by the redemption of our 3 1/4 % Notes on June 2, 2005. Based on the timing of the issuance and redemption of these notes, no interest expense was incurred during the period of June 2, 2005 to June 30, 2005.

Income Tax Provision. The income tax provision of $5,434 and $9,996 for the three and six months ended June 30, 2006 and $2,955 and $3,144 for the three and six months ended June 30, 2005, 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 for the three and six months ended June 30, 2006 also includes a provision for federal and state taxes of $2,157 and $5,215, respectively, and $868 and $2,146 of federal taxes for the three and six months ended June 30, 2005, respectively, that has not been reduced by the reversal of a valuation allowance as these tax benefits were acquired through business combinations.

Results of Operations by Operating Segment

We evaluate the performance of our business segments based upon 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 evaluation of strategic alternatives for the Emdeon Business Services and Emdeon Practice Services segment (Advisory expense); a charge related to the redemption of the 3 1/4% Notes; non-cash advertising expense related to advertising acquired in exchange for our equity securities; and 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 stock-based compensation expense associated with the adoption of SFAS 123R. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements contained in our 2005 Annual Report on Form 10-K. Inter-segment revenue primarily represent services provided by our Emdeon Business Services segment to the customer base within our Emdeon Practice Services segment and are reflected at rates comparable to those charged to third parties for comparable services. To a lesser extent, inter-segment revenue includes sales of certain WebMD services to our other operating segments.

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Reclassification of Segment Information. In connection with the initial public offering of WHC, we entered into a Services agreement related to providing WHC with administrative services, such as payroll, accounting, tax, employee benefit plan, employee insurance, intellectual property, legal and information processing services. Under the Services agreement, we receive an amount that reasonably approximates its cost of providing services to WHC. Our segment reporting has been modified to reflect the services fee it charges to WHC as an increase to the expenses of the WebMD segment and an offsetting reduction to the expenses in the Corporate segment. In accordance with SFAS 131, we have reclassified all prior period segment information to conform to the current period presentation. The services fee charged to the WebMD segment was $845 and $1,684 for the three and six months ended June 30, 2006, respectively, and $1,557 and $3,178 for the three and six months ended June 30, 2005.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue				
Emdeon Business Services	$ 206,943	$ 191,514	$ 408,097	$ 377,247
Emdeon Practice Services	77,272	78,596	152,978	151,614
WebMD	56,612	40,465	106,663	74,040
Porex	22,659	20,397	43,246	40,253
Inter-segment eliminations	(8,605)	(8,416)	(16,984)	(16,664)
	$ 354,881	$ 322,556	$ 694,000	$ 626,490
Earnings before interest, taxes, non-cash and other items				
Emdeon Business Services	$ 49,598	$ 40,420	$ 92,791	$ 78,673
Emdeon Practice Services	12,119	8,183	22,292	12,580
WebMD(a)	9,599	2,793	16,126	6,023
Porex	7,045	6,064	12,599	11,461
Corporate(a)	(11,628)	(11,742)	(22,902)	(23,747)
	66,733	45,718	120,906	84,990
Interest, taxes, non-cash and other items				
Depreciation and amortization	(19,381)	(17,541)	(38,309)	(34,045)
Non-cash stock-based compensation	(13,100)	(716)	(25,562)	(2,367)
Non-cash advertising	(1,189)	(2,386)	(2,794)	(5,013)
Legal expense	(275)	(4,283)	(817)	(8,443)
Advisory expenses	(4,104)		(4,104)	
(Loss) gain on investments		190		(3,642)
Loss on redemption of convertible debt		(1,902)		(1,902)
Interest income	4,435	3,936	8,854	8,257
Interest expense	(4,668)	(3,895)	(9,359)	(8,676)
Income tax provision	(5,434)	(2,955)	(9,996)	(3,144)
Minority interest in WebMD Health Corp., net of tax	164		793	
Net income	$ 23,181	$ 16,166	$ 39,612	$ 26,015

(a) Earnings before interest, taxes, non-cash and other items for the prior periods, for the Corporate and WebMD segments, have been reclassified to conform to the current period presentation for service fees charged to the WebMD segment from Corporate.

The following discussion is a comparison of the results of operations for each of our operating segments for the three and six months ended June 30, 2006 to the three and six months ended June 30, 2005.

Emdeon Business Services. Revenue was $206,943 and $408,097 for the three and six months ended June 30, 2006, an increase of $15,429 or 8.1% and $30,850 or 8.2%, compared to the prior year periods.

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The increase in revenue for the three and six months ended June 30, 2006, compared to the prior year, was primarily due to an increase in postage revenue which corresponded with the increase in postage rates that went into effect on January 8, 2006, growth in our patient statement and remittance and payment services, as well as growth in consulting services and software sales we provide in our ViPS operation. In addition, revenue increased for the three months ended June 30, 2006, compared to the prior year, due to increased sales of our automated healthcare claims processing software.

Earnings before interest, taxes, non-cash and other items was $49,598 and $92,791 for the three and six months ended June 30, 2006, compared to $40,420 and $78,673 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 24.0% and 22.7% for the three and six months ended June 30, 2006, compared to 21.1% and 20.9% for the prior year periods. 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, partially offset by the impact of the increased postage rates which went into effect at the beginning of the current year.

Emdeon Practice Services. Revenue was $77,272 and $152,978 for the three and six months ended June 30, 2006, a decrease of $1,324 or 1.7% and an increase of $1,364 or 0.9%, compared to the prior year periods, respectively. The decrease in revenue for the three months ended June 30, 2006, compared to the prior year period, was due to lower system sales and, to a lesser extent, lower Emdeon Network Services revenue, which was partially offset by higher maintenance revenue during this period. The increase in revenue during the six months ended June 30, 2006, compared to the prior year period was primarily driven by continued higher maintenance revenues from higher renewals of our maintenance and support service contracts with customers and higher Network Services revenue, partially offset by lower systems sales.

Earnings before interest, taxes, non-cash and other items was $12,119 and $22,292 for the three and six months ended June 30, 2006, compared to $8,183 and $12,580 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 15.7% and 14.6% for the three and six months ended June 30, 2006, compared to 10.4% and 8.3% for the prior year periods. The increased operating margin, as a percentage of revenue, was due to systems we sold, which had favorable pricing associated with them. Also contributing to the increased operating margin for the three and six months ended June 30, 2006 is the effect of continued operating efficiencies primarily related to lower headcount and related personnel costs, as well as lower delivery and customer service infrastructure related expenses.

WebMD. Revenue was $56,612 and $106,663 for the three and six months ended June 30, 2006, an increase of $16,147 or 39.9% and $32,623 or 44.1%, compared to the prior year periods, respectively. The acquisitions of Healthshare, Conceptis, eMedicine and Summex contributed $5,872 and $12,843 to the increases in revenue for the three and six months ended June 30, 2006, respectively. The remaining increase in revenue is the result of increased advertising and sponsorship revenue attributable to an increase in the number of brands and sponsored programs promoted on our sites and increased licensing revenue attributable to an increase in the number of companies using our private portal platform.

Earnings before interest, taxes, non-cash and other items was $9,599 and $16,126 for the three and six months ended June 30, 2006, compared to $2,793 and $6,023 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 17.0% and 15.1% for the three and six months ended June 30, 2006, compared to 6.9% and 8.1% for the prior year periods. This increase in operating margin was primarily due to higher revenue discussed above without incurring a proportionate increase in overall expenses. This increase was partially offset by a charge of approximately $3,150 during the three and six months ended June 30, 2005 related to the resignation of our former CEO and recruitment of our Executive Vice President of Product and Programming and Chief Technology Officer.

Porex. Revenue was $22,659 and $43,246 for the three and six months ended June 30, 2006, an increase of $2,262 or 11.1% and $2,993 or 7.4%, compared to the prior year periods. The increase in revenue for the three and six months ended June 30, 2006, was primarily due to increased sales of our healthcare and industrial products, including water filtration products.

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Earnings before interest, taxes, non-cash and other items was $7,045 and $12,599 for the three and six months ended June 30, 2006, compared to $6,064 and $11,461 in the prior year periods. As a percentage of revenue, earnings before interest, taxes, non-cash and other items was 31.1% and 29.1% for the three and six months ended June 30, 2006, compared to 29.7% and 28.5% for the prior year periods. The increase in operating margin was due to higher revenue as discussed above, combined with the effect of Porex s manufacturing costs which are generally more fixed in nature.

Corporate. Corporate includes expenses shared across all segments, such as executive personnel, accounting, tax, treasury, legal, human resources, risk management and certain information technology functions. Corporate expenses were $11,628 and $22,902 for the three and six months ended June 30, 2006, or 3.3% of revenue for both periods, compared to $11,742 or 3.6% of revenue and $23,747 or 3.8% of revenue for the prior year period. 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.

Inter-Segment Eliminations. Inter-segment eliminations primarily represent services provided by our Emdeon Business Services segment to the customer base within our Emdeon Practice Services segment and to a much lesser extent, sales of certain WebMD services into our other operating segments. Inter-segment eliminations during the current year periods were consistent when compared to a year ago.

Liquidity and Capital Resources

We began operations in January 1996 and, until 2004, we had incurred net losses in each year and, as of June 30, 2006, we had an accumulated deficit of approximately $10.1 billion. We plan to continue to invest in acquisitions, strategic relationships, infrastructure and product development.

As of June 30, 2006, we had approximately $388,960 in cash and cash equivalents and short-term investments, including $104,275 in cash and cash equivalents and short-term investments held by WHC, and working capital of $379,354. Additionally, we had $2,944 in marketable equity securities. We invest our excess cash principally in U.S. Treasury obligations and federal agency notes and expect to do so in the future. As of June 30, 2006, all our marketable securities were classified as available-for-sale.

Cash provided by operating activities was $115,221 for the six months ended June 30, 2006, compared to cash provided by operating activities of $62,700 for the six months ended June 30, 2005. The principal sources of the $52,521 increase in cash provided by operating activities when compared to a year ago, were higher earnings before interest, taxes, non-cash and other items, as well as a higher rate of collections of receivables and lower payments related to accounts payable and accrued expenses such as interest payments on our convertible notes which was impacted by the redemption of our $3^1/4$ % Notes. Partially offsetting these inflows were lower upfront payments relating to new and renewed contracts for which revenue has been deferred.

Cash used in investing activities was $141,417 for the six months ended June 30, 2006, compared to cash used in investing activities of $16,104 for the six months ended June 30, 2005. Cash used in investing activities for the six months ended June 30, 2006 was attributable to net disbursements of $27,600 from purchases, net of maturities and sales, of available-for-sale securities. Cash paid in business combinations, net of cash acquired, was $84,846 for the six months ended June 30, 2006, which primarily related to the acquisition of Summex and eMedicine, as well as contingent consideration payments related to our acquisitions of Advanced Business Fulfillment, Inc. and MedicineNet, Inc., of $17,946 and $7,250, respectively. Cash used in investing activities for the six months ended June 30, 2005 included net proceeds of $96,323 from maturities and sales, net of purchases, of available-for-sale securities. Cash paid in business combinations, net of the cash acquired, was $74,110 for the six months ended June 30, 2005, which primarily related to the Advanced Business Fulfillment, Inc. contingent consideration payment of $40,434 and the 2005 acquisition of HealthShare Technology, Inc. Investments in property and equipment were $28,971 for the six months ended June 30, 2006, compared to $38,717 a year ago.

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Cash used in financing activities was $41,583 for the six months ended June 30, 2006, compared to cash used in financing activities of $55,561 for the six months ended June 30, 2005. Cash used in financing activities for the six months ended June 30, 2006 principally related to the repurchases of our common stock of $71,843, offset by proceeds from the issuance of our common stock primarily resulting from exercises of employee stock options of $30,433. Cash used in financing activities for the six months ended June 30, 2005 consisted of $86,694 for the redemption of our 3 1/4 % Notes in June 2005, offset by $31,437 related to the issuance of our common stock, primarily resulting from exercises of employee stock options. We did not repurchase our common stock during the six months ended June 30, 2005.

Our principal commitments at June 30, 2006 were our commitments related to the $350,000 of 1.75% Convertible Subordinated Notes due 2023, the 3 1/8 % Notes and the $100,000 of Convertible Redeemable Exchangeable Preferred Stock. In addition, we have obligations under operating leases of $108,880 and the potential payment of contingent consideration of up to an aggregate of $42,114 if prior acquisitions we have made achieve certain milestones. Additionally, we anticipate capital expenditure requirements of approximately $70,000 to $80,000 in 2006, of which $14,768 and $14,203 was spent in the first and second quarter, respectively. In addition, during July 2006 we spent approximately $40,000 and $4,000 for the acquisitions of Medsite and IPN, respectively.

On August 8, 2006, we entered into a definitive agreement for the sale of our Emdeon Practice Services segment to Sage Software, Inc. for $565,000 in cash, subject to customary adjustments based on net working capital at closing. We expect the closing to occur in September 2006, subject to satisfaction of customary closing conditions. For additional information, see Introduction Recent Developments Pending Sale of Emdeon Practice Services Segment above in this MD&A.

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 2006 and 2007. Our future liquidity and capital requirements will depend upon numerous factors, including the results of our Board s evaluation of strategic alternatives relating to Emdeon Business Services, 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 Emdeon Business Services and WebMD use to provide their services, potential future acquisitions and additional repurchases of our common stock. We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

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

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

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

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

There can be no assurance that healthcare payers will continue to use Emdeon Business Services and other independent companies to transmit healthcare transactions. Some payers currently offer electronic data transmission services to healthcare providers that bypass third-party EDI service providers such as Emdeon Business Services. In addition, some payers currently offer electronic data transmission services through affiliated clearinghouses that compete with Emdeon Business Services. We cannot provide assurance that we will be able to maintain our existing relationships with payers or develop new relationships on satisfactory terms, if at all. Any significant increase in the utilization of links between healthcare providers and payers without use of a third party clearinghouse could have a material adverse effect on Emdeon Business Services transaction volume and financial results. In addition, any increase in the ability of payers to bypass third party EDI service providers may adversely affect the terms and conditions we are able to negotiate in our agreements with them, which could also have a material adverse impact on Emdeon Business Services business and financial results.

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

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

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

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

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

A portion of Emdeon Business Services revenue comes from customers that are governmental agencies. Government contracts and subcontracts may be subject to some or all of the following:

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

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

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

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

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

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

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

In addition, certain violations of federal law may subject government contractors to having their contracts terminated and, under certain circumstances, suspension and/or debarment from future government contracts. We are also subject to conflict-of-interest rules that may affect our eligibility for some government contracts, including rules applicable to all U.S. government contracts as well as rules applicable to the specific agencies with which we have contracts or with which we may seek to enter into contracts. Finally, some of our government contracts are priced based on our cost of providing products and services. Those contracts are subject to regulatory cost-allowability standards and a specialized system of cost accounting standards.

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

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

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

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

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

Risks Related to the Businesses of WebMD

WebMD has incurred and may continue to incur losses

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

In addition, WebMD s online businesses have a limited operating history and participate in relatively new and rapidly growing markets. These businesses have undergone significant changes during their short history as a result of changes in the types of services provided, technological changes, changes in market conditions, and changes in ownership and management, and are expected to continue to change for similar reasons.

The timing of WebMD s advertising and sponsorship revenue may vary significantly from quarter to quarter

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

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

- timing of Food and Drug Administration, or FDA, approval for new products or for new approved uses for existing products;
- seasonal factors relating to the prevalence of specific health conditions and other seasonal factors that may affect the timing of promotional campaigns for specific products; and
- the scheduling of conferences for physicians and other healthcare professionals.

Lengthy sales and implementation cycles for WebMD s private online portals make it difficult to forecast revenues from these applications and may impact its results of operations

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

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

If WebMD is unable to provide content and services that attract and retain users to The WebMD Health Network on a consistent basis, its advertising and sponsorship revenue could be reduced

Users of *The WebMD Health Network* have numerous other online and offline sources of healthcare information services. WebMD s ability to compete for user traffic on its public portals depends upon its ability to make available a variety of health and medical content, decision-support applications and other services that meet the needs of a variety of types of users, including consumers, physicians and other healthcare professionals, with a variety of reasons for seeking information. WebMD s ability to do so depends, in turn, on:

- its ability to hire and retain qualified authors, journalists and independent writers;
- its ability to license quality content from third parties; and
- its ability to monitor and respond to increases and decreases in user interest in specific topics.

We cannot assure you that WebMD will be able to continue to develop or acquire needed content, applications and tools at a reasonable cost. In addition, since consumer users of WebMD s public portals may be attracted to *The WebMD Health Network* as a result of a specific condition or for a specific purpose, it is difficult for us to predict the rate at which they will return to the public portals. Because WebMD generates revenue by, among other things, selling sponsorships of specific pages, sections or

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events on *The WebMD Health Network,* a decline in user traffic levels or a reduction in the number of pages viewed by users could cause WebMD s revenue to decrease and could have a material adverse effect on WebMD s results of operations.

If WebMD is unable to provide healthcare content for its offline publications that attracts and retains users, its revenue will be reduced

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

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

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

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

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

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

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

Most of WebMD s advertising and sponsorship revenue has, in the past, come from pharmaceutical, biotechnology and medical device companies. More recently, WebMD has been focusing on increasing sponsorship revenue from consumer products companies that are interested in communicating health-related or safety-related information about their products to WebMD s audience. However, while a number of consumer products companies have indicated an intent to increase the portion of their promotional

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spending used on the Internet, we cannot assure you that these advertisers and sponsors will find WebMD s consumer Web sites to be as effective as other Web sites or traditional media for promoting their products and services. If WebMD encounters difficulties in competing with the other alternatives available to consumer products companies, this portion of its business may develop more slowly than we expect or may fail to develop.

Failure to maintain and enhance the WebMD brand could have a material adverse effect on WebMD s business

We believe that the WebMD brand identity that WebMD has developed has contributed to the success of its business and has helped it achieve recognition as a trusted source of health and wellness information. We also believe that maintaining and enhancing that brand is important to expanding the user base for WebMD s public portals, to its relationships with sponsors and advertisers and to its ability to gain additional employer and healthcare payer clients for its private portals. WebMD has expended considerable resources on establishing and enhancing the WebMD brand and its other brands, and it has developed policies and procedures designed to preserve and enhance its brands, including editorial procedures designed to provide quality control of the information it publishes. WebMD expects to continue to devote resources and efforts to maintain and enhance its brands. However, it may not be able to successfully maintain or enhance awareness of its brands, and events outside of its control may have a negative affect on its brands. If WebMD is unable to maintain or enhance awareness of its brands, and do so in a cost-effective manner, its business could be materially and adversely affected.

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

Consumers access health-related information through WebMD s online services, including information regarding particular medical conditions and possible adverse reactions or side effects from medications. If WebMD s content, or content that it obtains from third parties, contains inaccuracies, it is possible that consumers, employees, health plan members or others may sue WebMD for various causes of action. Although WebMD s Web sites contain terms and conditions, including disclaimers of liability, that are intended to reduce or eliminate its liability, the law governing the validity and enforceability of online agreements and other electronic transactions is evolving. WebMD could be subject to claims by third parties that WebMD s online agreements with consumers and physicians that provide the terms and conditions for use of WebMD s public or private portals are unenforceable. A finding by a court that these agreements are invalid and that WebMD is subject to liability could harm its business and require costly changes to its business.

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

WebMD faces potential liability related to the privacy and security of personal information it collects from consumer and healthcare professionals through its Web sites

Internet user privacy has become a major issue both in the United States and abroad. WebMD has privacy policies posted on its Web sites that we believe comply with applicable laws requiring notice to users about WebMD s information collection, use and disclosure practices. However, whether and how existing privacy and consumer protection laws in various jurisdictions apply to the Internet is still uncertain and may take years to resolve. Any legislation or regulation in the area of privacy of personal information could affect the way WebMD operates its Web sites and could harm its business. Further, we can give no

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assurance that the privacy policies and other statements on WebMD s Web sites, or its practices, will be found sufficient to protect it from liability or adverse publicity in this area.

Failure by WebMD to maintain its CME accreditation could adversely affect its ability to provide online CME offerings

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

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

Government regulation and industry initiatives could adversely affect the volume of sponsored online CME programs implemented through WebMD s Web sites or require changes to how WebMD offers CME

CME activities may be subject to government regulation by the FDA, the OIG, or HHS, the federal agency responsible for interpreting certain federal laws relating to healthcare, and by state regulatory agencies. During the past several years, educational programs, including CME, directed toward physicians have been subject to increased scrutiny to ensure that sponsors do not influence or control the content of the program. In response to governmental and industry initiatives, pharmaceutical companies and medical device companies have been developing and implementing internal controls and procedures that promote adherence to applicable regulations and requirements. In implementing these controls and procedures, different clients may interpret the regulations and requirements differently and may implement procedures or requirements that vary from client to client. These controls and procedures:

- may discourage pharmaceutical companies from engaging in educational activities;
- may slow their internal approval for such programs;
- may reduce the volume of sponsored educational programs implemented through WebMD s Web sites to levels that are lower than in the past; and
- may require WebMD to make changes to how we offer or provide educational programs, including CME.

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

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

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

We must introduce new healthcare information services and technology solutions and improve the functionality of our existing products and services in a timely manner in order to retain existing customers and attract new ones. However, we may not be successful in responding to technological and regulatory developments and changing customer needs. The pace of change in the markets we serve is rapid, and there are frequent new product and service introductions by our competitors and by vendors whose products and services we use in providing our own products and services. If we do not respond successfully to technological and regulatory changes and evolving industry standards, our products and services may become obsolete. Technological changes may also result in the offering of competitive products and services at lower prices than we are charging for our products and services, which could result in our losing sales unless we lower the prices we charge. In addition, there can be no assurance that the products we develop or license will be able to compete with the alternatives available to our customers.

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

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

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

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

- our updated electronic medical records products;
- the business process outsourcing services for payers that we have developed internally and through acquisitions; and
- our updated clinical transaction services.

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

For services we are developing or may develop in the future, there can be no assurance that we will attract sufficient customers or that such services will generate sufficient revenues to cover the costs of developing, marketing and providing those services. In addition, the introduction of new or updated

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products and services may require or make advisable related changes in the manner in which we market, deliver and price our products and services, including pre-existing products and services. There can be no assurance that any pricing, licensing or other product strategy that we implement for any new products and services or for pre-existing products and services will be economically viable or acceptable to the target markets. Failure to achieve broad penetration in target markets with respect to new or updated products and services could have a material adverse effect on our business prospects.

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

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

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

Errors in the software and systems we provide to customers or the software and systems we use to provide services could cause serious problems for our customers. For example, errors in our transaction processing systems can result in healthcare payers paying the wrong amount, making payments to the wrong payee or delaying payments. In addition, since some of our products and services relate to laboratory ordering and reporting and electronic prescriptions, an error in our systems could result in injury to a patient. If problems like these occur, our customers may seek compensation from us or may seek to terminate their agreements with us, withhold payments due to us, seek refunds from us of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. In addition, we may be subject to claims against us by others affected by any such problems.

We also provide products and services that assist in healthcare decision-making, including some that relate to patient medical histories and treatment plans. If these products malfunction or fail to provide accurate and timely information, we could be subject to product liability and other claims. In addition, we could face breach of warranty or other claims or additional development costs if our software and systems do not meet contractual performance standards, do not perform in accordance with their documentation, or do not meet the expectations that our customers have for them. Our software and systems are inherently complex and, despite testing and quality control, we cannot be certain that errors will not be found in prior versions, current versions or future versions or enhancements.

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

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Performance problems with our systems or system failures, whether caused by hardware, software or other problems, could cause us to lose business or incur liabilities

Our customer satisfaction and our business could be harmed if we experience transmission delays or failures or loss of data in the systems we use to provide services to our customers, including the transaction-related services that Emdeon Business Services provides to healthcare payers and providers and the online services that WebMD provides. These systems, and the software used in these systems, are complex and, despite testing and quality control, we cannot be certain that problems will not occur or that they will be detected and corrected promptly if they do occur. To operate without interruption, both we and the service providers we use must guard against:

- damage from fire, power loss and other natural disasters;
- communications failures;
- software and hardware errors, failures or crashes;
- security breaches, computer viruses and similar disruptive problems; and
- other potential interruptions.

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

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

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

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

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

A security breach could damage our reputation or result in liability. We retain and transmit confidential information, including patient health information, in our processing centers and other facilities. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. We may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by breaches. Despite the implementation of security measures, this infrastructure or other systems that we interface with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third parties or similar disruptive problems. Any compromise of our security, whether as a result of our own systems or systems that they interface with, could reduce demand for our services.

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

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

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

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

Risks Applicable to Our Use of the Internet

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

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

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

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

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

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

Third parties may challenge the enforceability of our online agreements

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

Government regulation of the Internet could adversely affect our business

The Internet and its associated technologies are subject to government regulation. Our failure, or the failure of our business partners, to accurately anticipate the application of laws and regulations affecting our products and services and the manner in which we deliver them, or any other failure to comply with such laws and regulations, could create liability for us, result in adverse publicity, or negatively affect our business. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services covering user privacy, patient confidentiality, consumer protection and other issues, including pricing, content, copyrights and patents, distribution, and characteristics and quality of products and services. We cannot predict whether these laws or regulations will change or how such changes will affect our business. For more information regarding government regulation of the Internet to which we are or may be subject, see Business Government Regulation in our Annual Report on Form 10-K for the year ended December 31, 2005.

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Risks Related to Providing Products and Services to the Healthcare Industry

Developments in the healthcare industry could adversely affect our business

Almost all of the revenue of WebMD, Emdeon Business Services and Emdeon Practice Services come from healthcare industry participants or from companies providing products or services to healthcare industry participants. In addition, a significant portion of Porex s revenue comes from products used in healthcare or related applications. Developments that result in a reduction of expenditures by customers or potential customers in the healthcare industry could have a material adverse effect on our business. General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulation or private initiatives that affect the manner in which healthcare providers interact with patients, payers or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services;
- consolidation of healthcare industry participants;
- reductions in governmental funding for healthcare; and
- adverse changes in business or economic conditions affecting healthcare payers or providers, pharmaceutical companies, medical device manufacturers or other healthcare industry participants.

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

- changes in the billing patterns of healthcare providers;
- changes in the design of health insurance plans;
- changes in the contracting methods payers use in their relationships with providers; and
- decreases in marketing expenditures by pharmaceutical companies or medical device manufacturers, including as a result of governmental regulation or private initiatives that discourage or prohibit promotional activities by pharmaceutical or medical device companies.

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

WebMD s advertising and sponsorship revenue is particularly dependent on pharmaceutical, biotechnology and medical device companies. WebMD s business will be adversely impacted if, as a result of changes in business, economic or regulatory conditions or other factors affecting the pharmaceutical, biotechnology or medical device industries, pharmaceutical, biotechnology or medical device companies reduce or postpone:

- spending on marketing and educational services;
- their use of the Internet as a vehicle for marketing and education; or
- their use of any specific service or combination of services that we provide.

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

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

There are currently numerous federal, state and private initiatives and studies seeking ways to increase the use of information technology in healthcare, including in the physician s office, as a means of improving care and reducing costs. These initiatives may encourage more companies to enter our markets, may provide advantages to our competitors and may result in the development of technology solutions that compete with ours.

For example, the Centers for Medicare & Medicaid Services (CMS) and the HHS Office of Inspector General (OIG) have proposed creating exceptions or safe harbors, for electronic health records software and related services, to current prohibitions on physician self-referrals and kickbacks. The goal of this initiative is to allow hospitals and physicians to have interoperable electronic health records systems without violating existing laws that govern their relationships. The rule change may cause additional competitors, including providers of hospital information systems, to compete to provide systems for use by our existing and potential physician practice customers and may reduce the prices we are able to charge for our systems and services.

In addition, as part of its initiatives, HHS has indicated that it intends to facilitate the development and transfer of knowledge and technology used by the federal government to the private sector. As a result, the CMS has been collaborating with the Veterans Health Administration (VHA) and other key federal agencies on the development and distribution of electronic health record software called VistA-Office EHR for use in clinics and physician offices, based on the VistA system VHA uses for its own hospitals. VistA-Office EHR will compete with our IntergyEHR solution and appears likely to be offered at a significantly lower cost than IntergyEHR.

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

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

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

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

because WebMD s public portals business involves advertising and promotion of prescription and over-the-counter drugs and medical devices, any increase in regulation of these areas could make it more difficult for us to contract for sponsorships and advertising;

- because we sell items and services to healthcare providers and physicians, our sales and promotional practices must comply with federal and state anti-kickback laws;
- our healthcare connectivity and transaction-related administrative services must be provided in compliance with federal and state false claims laws; and
- in providing health information to consumers, we must not engage in activities that could be deemed to be practicing medicine and a violation of applicable laws.

For more information regarding the risks that healthcare regulation creates for our businesses, see Business Government Regulation in our Annual Report on Form 10-K for the year ended December 31, 2005.

Risks Related to Porex s Business and Industry

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

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

Porex s product offerings must meet changing customer requirements

A significant portion of our Porex products are integrated into end products used by manufacturing companies in various industries, some of which are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. Accordingly, to satisfy its customers, Porex must develop and introduce, in a timely manner, products that meet changing customer requirements at competitive prices. To do this, Porex must:

- develop new uses of existing porous plastics technologies and applications;
- innovate and develop new porous plastics technologies and applications;
- commercialize those technologies and applications;
- manufacture at a cost that allows it to price its products competitively;
- manufacture and deliver its products in sufficient volumes and on time;
- accurately anticipate customer needs; and
- differentiate its offerings from those of its competitors.

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

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

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

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

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

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

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

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

Porex may not be able to keep third parties from using technology it has developed

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

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

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

In most instances, Porex enters into indemnity agreements with its manufacturing customers. These indemnity agreements generally provide that these customers would indemnify Porex from liabilities that may arise from the sale of their products that incorporate Porex components to, or the use of such products by, end-users.

While Porex generally seeks contractual indemnification from its customers, any such indemnification is limited, as a practical matter, to the creditworthiness of the indemnifying party. If Porex does not have adequate contractual indemnification available, product liability claims, to the extent not covered by insurance, could have a material adverse effect on its business and its financial results.

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

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

- changes in foreign currency exchange rates;
- changes in a specific country s or region s political or economic conditions, particularly in emerging markets;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- differing protection of intellectual property; and
- unexpected changes in regulatory requirements.

Environmental regulation could adversely affect Porex s business

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

Risks Applicable to Our Entire Company and to Ownership of Our Securities

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

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

Emdeon intends to continue to fully cooperate with the authorities in this matter. While we are not able to estimate, at this time, the amount of the expenses that we will incur in connection with the investigations, we expect that they may continue to be significant. In connection with the sale of Emdeon Practice Services to Sage Software announced on August 8, 2006, we have agreed to indemnify Sage Software with respect to this matter.

Recent and pending management changes may disrupt our operations and our ability to recruit and retain other personnel

In the past year, we have experienced changes in our senior management, including in the leadership of three of our four segments. The President of our company, who was also the head of our Emdeon Business Services segment, left in December 2005 and has not been replaced. We have also announced that we expect to experience further changes in our senior management, including expected changes in our Chief Executive Officer, who we expect to change positions within our company for health reasons, and in our Chief Financial Officer, who we announced would be leaving that position to serve solely as the head of our Emdeon Practice Services segment. Changes in senior management and uncertainty regarding pending changes may disrupt the operations of our business and may impair our ability to recruit and retain needed personnel. Any such disruption or impairment may have an adverse affect on our business.

We cannot assure you that the decision to evaluate strategic alternatives with respect to our Emdeon Business Services segment will result in us pursuing a transaction or that transactions involving Emdeon Practice Services or Emdeon Business Services will have a positive effect on our company

In February 2006, we announced that, in connection with inquiries received from several third parties expressing an interest in acquiring our Emdeon Business Services and Emdeon Practice Services segments, our Board of Directors has authorized commencing a process to evaluate strategic alternatives relating to these businesses to maximize stockholder value. On August 8, 2006, we announced that we had entered into a definitive agreement for the sale of our Emdeon Practice Services segment to Sage Software, Inc. The process to evaluate strategic alternatives may or may not result in an agreement for a transaction with respect to Emdeon Business Services. In addition, our ability to come to agreement with a another party regarding a transaction with respect to Emdeon Business Services, if our Board decides to pursue one, will depend on numerous factors, some of which are outside of our control, including factors affecting the availability of financing for transactions or the financial markets in general. Our ability to complete a transaction, even after it is announced, depends upon our ability to cause the agreed upon conditions to closing to be satisfied and there can be no assurance that we will be able to do so, particularly since satisfaction of some of those conditions to closing may be subject to factors or events that are outside of our control. Even if a transaction is completed, there can be no assurance that it will have a positive effect on the price of our common stock. Finally, the process of evaluating strategic alternatives with respect to Emdeon Business Services may be more time consuming and expensive than we currently anticipate.

Whether or not we pursue a transaction involving Emdeon Business Services, there may be negative impacts on the businesses in that segment as a result of the evaluation of strategic alternatives

As a result of the continuation of the process of evaluating strategic alternatives relating to Emdeon Business Services, the financial results and operations of the businesses in that segment may be adversely affected by the diversion of management resources to that process and uncertainty regarding the outcome of the process. For example, the uncertainty of whether we will continue to own the businesses in that segment in the future could lead us to lose or fail to attract employees, customers or business partners. Although we have taken steps to address these risks, there can be no assurance that any such losses or distractions will not adversely affect the operations or financial results of Emdeon Business Services.

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

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

We face significant competition for our products and services

The markets in which we operate are intensely competitive, continually evolving and, in some cases, subject to rapid technological change.

Key competitors to Emdeon Business Services and Emdeon Practice Services include: healthcare information system vendors and support providers, including physician practice management system and EMR system vendors and support providers; transaction processing companies, including those providing EDI and/or Internet-based services and those providing services through other means, such as paper and fax; large information technology consulting service providers; and health insurance companies, pharmacy benefit management companies and pharmacies that provide or are developing electronic transaction services for use by healthcare providers and/or by their members and customers. In addition, major software, hardware, information systems and business process outsourcing companies, both with and without healthcare companies as their partners, offer or have announced their intention to offer products or services that are competitive with those of Emdeon Business Services and Emdeon Practice Services.

WebMD s public portals face competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. We compete for users with online services and Web sites that provide health-related information, including both commercial sites and not-for-profit sites. We compete for advertisers and sponsors with both health-related Web sites and general purpose consumer online services and portals and other high-traffic Web sites that include both healthcare-related and non-healthcare-related content and services. Since there are no substantial barriers to entry into the markets in which WebMD s public portals participate, we expect that competitors will continue to enter these markets.

WebMD s private portals compete with: providers of healthcare decision-support tools and online health management applications; wellness and disease management vendors; and health information services and health management offerings of health plans and their affiliates.

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Many of our competitors have greater financial, technical, product development, marketing and other resources than we do. These organizations may be better known than we are and have more customers than we do. We cannot provide assurance that we will be able to compete successfully against these organizations or any alliances they have formed or may form.

For more information about the competition we face, see Business Healthcare Information Services and Technology Solutions Competition for Our Healthcare Information Services and Technology Solutions in our Annual Report on Form 10-K for the year ended December 31, 2005.

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

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

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

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

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

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

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

We have incurred losses and may incur losses in the future

We began operations in January 1996 and, until 2004, had incurred net losses in each year since our inception. As of June 30, 2006, we had an accumulated deficit of approximately $10.1 billion. We currently intend to continue to invest in infrastructure development, applications development, marketing and acquisitions. Whether we incur losses in a particular period will depend on, among other things, the amount of such investments and whether those investments lead to increased revenues.

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

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

- cash and cash equivalents on hand and marketable securities;
- proceeds from the incurrence of indebtedness; and
- proceeds from the issuance of additional common stock, preferred stock, convertible debt or other securities.

Our issuance of additional securities could:

- cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;
- cause substantial dilution of our earnings per share;
- subject us to the risks associated with increased leverage, including a reduction in our ability to obtain financing or an increase in the cost of any financing we obtain;
- subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and
- adversely affect the prevailing market price for our outstanding securities.

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

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

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

- our ability to maintain relationships with the customers of the acquired business;
- our ability to cross-sell products and services to customers with which we have established relationships and those with which the acquired businesses have established relationships;
- our ability to retain or replace key personnel;
- potential conflicts in payer, provider, strategic partner, sponsor or advertising relationships;
- our ability to coordinate organizations that are geographically diverse and may have different business cultures; and
- compliance with regulatory requirements.

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

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

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

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

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

Interest Rate Sensitivity

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

Changes in prevailing interest rates will cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents, short-term investments and marketable securities in commercial paper, non-government debt securities, money market funds and highly liquid United States Treasury notes. We view these high grade securities within our portfolio as having similar market risk characteristics. Principal amounts expected to mature in 2006 and 2007 are $296.0 million and $1.6 million, respectively.

The $3^{1}/8$ % Notes and the 1.75% Notes that we have issued have fixed interest rates; changes in interest rates will not impact our financial condition or results of operations.

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

Exchange Rate Sensitivity

Currently, substantially all of our sales and expenses are denominated in United States dollars; however, Porex and WebMD are exposed to fluctuations in foreign currency exchange rates, primarily the rate of exchange of the United States dollar against the Euro. This exposure arises primarily as a result of translating the results of Porex s foreign operations to the United States dollar at exchange rates that have fluctuated from the beginning of the accounting period. Neither Porex nor WebMD have engaged in foreign currency hedging activities to date. Foreign currency translation gains were $1.1 million and $1.4 million, during the three and six month periods ended June 30, 2006, respectively, and foreign currency translation losses were $1.7 million and $2.7 million, during the three and six months ended June 30, 2005. We believe that future exchange rate sensitivity related to Porex and WebMD will not have a material effect on our financial condition or results of operations.

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ITEM 4. *Controls and Procedures*

As required by Exchange Act Rule 13a-15(b), Emdeon management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of Emdeon s disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2006. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Emdeon s disclosure controls and procedures were effective as of June 30, 2006.

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, except for the conversion by WHC to new accounting software described below, no changes in Emdeon s internal control over financial reporting occurred during the second quarter of 2006 that have materially affected, or are reasonably likely to materially affect, Emdeon s internal control over financial reporting. During the second quarter of 2006, WHC implemented a planned conversion to a new third party accounting software system different than the one used by Emdeon and no longer relies on related services that had been provided by Emdeon. As a result, certain business processes and accounting procedures of our WebMD segment have changed and certain procedures relating to the consolidation of that segment s financial statements into the Emdeon consolidated financial statements have been modified. These changes were made in accordance with WHC s plan to implement separate accounting 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.

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PART II
OTHER INFORMATION

ITEM 1. ***Legal Proceedings***

The information contained in Note 9 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by this reference.

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

(c) The following table provides information about purchases by Emdeon during the three months ended June 30, 2006 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)	
04/01/06 - 04/30/06	493,312	$	10.63	490,186	$	11,157,044
05/01/06 - 05/31/06	8,998		11.98			11,157,044
06/01/06 - 06/30/06	563		11.98			11,157,044
Total	502,873	$	10.66	490,186	$	11,157,044

(1) Includes 3,126, 8,998 and 563 shares withheld from Emdeon Restricted Stock that vested during April, May and June of 2006, respectively, in order to satisfy withholding tax requirements related to the vesting of the awards. The value of these shares was determined based on the closing fair market value of Emdeon Common Stock on the date of vesting.

(2) These repurchases were made pursuant to the repurchase program that we announced on January 23, 2006, at which time Emdeon was authorized to use up to $48 million to purchase shares of its common stock from time to time. On February 8, 2006, the maximum aggregate amount authorized for purchases pursuant to this repurchase program was increased to $68 million and, on March 28, 2006, it was increased to $83 million. For additional information, see Note 5 to the Consolidated Financial Statements included in this Quarterly Report.

ITEM 6. ***Exhibits***

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

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SIGNATURES

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

Emdeon Corporation
By: /s/ Andrew C. Corbin

Andrew C. Corbin
Executive Vice President and
Chief Financial Officer

Date: August 9, 2006

EXHIBIT INDEX

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