

EMDEON CORP
Form 10-K
March 16, 2006

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

Form 10-K

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the fiscal year ended December 31, 2005**
- or**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number: 0-24975

Emdeon Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

94-3236644

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

**669 River Drive, Center 2
Elmwood Park, New Jersey**

(Address of principal executive office)

07407-1361

(Zip code)

(201) 703-3400

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value \$.0001 per share

(Title of each class)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$3,427,800,000 (based on the closing price of the common stock of \$10.27 per share on that date, as reported on the Nasdaq Stock Market's National Market and, for purposes of this computation only, the assumption that all of the registrant's directors and executive officers are affiliates).

As of March 10, 2006, there were 275,053,733 shares of Emdeon common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the registrant's definitive proxy statement to be filed with the Commission relating to the registrant's 2006 Annual Meeting of Stockholders is incorporated by reference into Part III.

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WebMD[®], WebMD Health[®], CME Circle[®], dakota imaging[™], Digital Office Manager[®], DIM_{DX}[®], Emdeon[™], Emdeon Business Services[™], Emdeon Practice Services[™], 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[®], theheart.org[®], The Little Blue Book[™], The Medical Manager[®] and ViPSsm are trademarks of Emdeon Corporation or its subsidiaries.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 to

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 customers and strategic partners;

diversion of resources to the process of evaluating alternatives with respect to our Emdeon Business Services and Emdeon Practice Services segments and uncertainties regarding the outcome of the process and its effects on those segments and on our company as a whole;

the inability to attract and retain qualified personnel;

the anticipated benefits from acquisitions 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 Risk Factors described in Item 1A of this Annual Report.

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 Annual Report are made only as of the date of this Annual 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

Item 1. Business

INTRODUCTION

General Information

Emdeon Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. Our common stock has traded on the Nasdaq National Market under the symbol HLTH since February 11, 1999.

We changed our name to Healtheon/WebMD Corporation in November 1999, to WebMD Corporation in September 2000 and to Emdeon Corporation in October 2005. The change to Emdeon was made in connection with an initial public offering by WebMD Health Corp. (which we refer to in this Annual Report as WHC). We formed WHC to conduct the business of what was then referred to as our WebMD Health 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 name WebMD and related trademarks. In this Annual Report, we use the name WebMD to refer to the reporting segment of our company formerly called WebMD Health.

WHC's Class A Common Stock began trading on the Nasdaq National Market under the symbol WBMD on September 29, 2005. As of the date of this Annual Report, we own all 48,100,000 shares of WHC Class B Common Stock, which represents 85.8% of WHC's outstanding common stock and 96.7% of the combined voting power of WHC's outstanding common stock.

Our principal executive offices are located at 669 River Drive, Center 2, Elmwood Park, New Jersey 07407-1361 and our telephone number is (201) 703-3400.

We make available free of charge at www.emdeon.com (in the About Emdeon section) copies of materials we file with, or furnish to, the Securities and Exchange Commission, or SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. WHC makes available free of charge at www.wbmd.com (in the Investor Relations section) copies of materials it files with, or furnishes to, the Securities and Exchange Commission as soon as reasonably practicable after it electronically files such materials with, or furnishes them to, the SEC.

Overview of Our Businesses

We are a leading provider of business, technology and information solutions that support both the financial and clinical aspects of healthcare delivery. We connect providers, payers, employers and consumers to simplify business processes, to provide actionable knowledge at the right time and place and to improve healthcare quality. Our business is comprised of four segments:

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.

Our provider customers include physicians, dentists, billing services, laboratories, pharmacies and hospitals. Our payer customers include commercial health insurance companies, managed care organizations, Medicare and Medicaid agencies, Blue Cross and Blue Shield organizations, and pharmacy

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benefit management companies. In addition, Emdeon Business Services works with numerous medical and dental practice management system vendors, hospital information system vendors and other service providers to provide integrated transaction processing between their systems and ours.

We generate revenues by selling our transaction services to healthcare payers and providers, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. We also generate revenue by selling our document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. In addition, we receive software license fees and software and hardware maintenance fees from healthcare payers who license our systems for converting paper claims into electronic ones. We receive license fees from healthcare payers, based on the number of covered members, for use of certain of our software and we provide business and information technology consulting services to payer customers on a time and materials basis. Our contracts with the federal government are typically on a cost-plus award fee structure. Emdeon Business Services revenue was \$758.9 million in 2005 and \$686.6 million in 2004.

Emdeon Practice Services. We have been helping medical practices automate practice management and streamline clinical workflow for nearly 25 years. Our innovative practice management and electronic health records software solutions are used by large and small medical practices in all specialties to improve efficiency and enhance patient care. Our systems and services automate:

scheduling, billing and other administrative tasks,

maintenance of electronic medical records and

documentation of patient encounters.

Emdeon Practice Services also provides integrated electronic transaction solutions and print-and-mail services powered by Emdeon Business Services.

We generate revenue from: one-time fees for licenses to our software, for system hardware and for implementation services; and recurring fees for the maintenance and support of our software and system hardware. Pricing depends on several factors, including the size of the practice or group of practices, the number and type of modules to be licensed, the hardware to be supported and the complexity of the installation. Our Emdeon Network Services and some of our Emdeon Practice Services products and services are priced on a monthly fee per provider basis or a per transaction basis. Emdeon Practice Services revenue was \$304.2 million in 2005 and \$296.1 million in 2004.

WebMD. We are a leading provider of health information services to consumers, physicians and other healthcare professionals, employers and health plans through our public and private online portals and health-focused publications.

Public Online Portals. Our public network of health portals enables consumers and physicians to readily access healthcare information relevant to their specific areas of interest and specialty. We provide a means for advertisers and sponsors to reach, educate and inform large audiences of health-involved consumers and clinically active physicians. We generate revenue by providing healthcare and consumer products companies with opportunities to reach our public portals audience through a variety of content sponsorship formats and advertising products. In addition, we create and distribute accredited online continuing medical education (or CME) programs funded by grants from a variety of sponsors.

Private Online Portals. Our private portals provide a cost-effective platform for employers and health plans to provide their employees and plan members with access to personalized health and benefit

information and decision support technology that helps them make more informed benefit, provider and treatment choices. We generate revenues by licensing our private portals to employers and payers for use by their employees and members. Our private portals do not have any advertisements and do not generate revenue from advertising or sponsorship.

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Publishing and Other Services. We also provide complementary offline health content. Our offline publications include *The Little Blue Book*, a physician directory, *ACP Medicine* and *ACS Surgery: Principles of Practice*, our medical reference textbooks, and *WebMD the Magazine*, a consumer publication launched in early 2005 that we distribute free of charge to physician office waiting rooms. We also conduct in-person CME as a result of our acquisition of the assets of Conceptis Technologies, Inc. (which we refer to as Conceptis) in December 2005.

WebMD revenue was \$168.2 million in 2005 and \$134.3 million in 2004.

Porex. Porex develops, manufactures and distributes proprietary porous plastic products and components used in healthcare, industrial and consumer applications. Our Porex customers include both end-users of our finished products, as well as manufacturers that include our components in their products for the medical device, life science, research and clinical laboratory, surgical and other markets. Porex is an international business with manufacturing operations in North America, Europe and Asia and customers in more than 65 countries. Porex revenue was \$79.1 million in 2005 and \$77.1 million in 2004.

For a more complete description of the products and services of each of our segments, see Healthcare Information Services and Technology Solutions and Porex below. For additional information regarding the results of operations of each of our segments, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations by Operating Segment and Note 9 to the Consolidated Financial Statements included in this Annual Report.

Recent Developments

Evaluation of Strategic Alternatives Related to Emdeon Business Service and Emdeon Practice Service Segments. 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 has authorized commencing a process to evaluate strategic alternatives relating to these businesses to maximize stockholder value. Emdeon has engaged The Blackstone Group L.P. and Citigroup Global Markets Inc. as its financial advisors to assist the Board in this process. 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 and our Board may determine to retain Emdeon Business Services and Emdeon Practice Services.

New Stock Repurchase Program. In connection with the commencement of a tender offer by us for our common stock in November 2005, our then existing stock repurchase program was terminated. In January 2006, Emdeon announced a new stock repurchase program (the New Repurchase Program), at which time Emdeon was authorized to use up to \$48 million to purchase shares of its common stock, from time to time, in the open market, through block trades or in private transactions. In February 2006, the maximum aggregate amount authorized for purchases under the New Repurchase Program was increased to \$68 million. As of March 10, 2006, approximately \$43.4 million of this authorization had been used to purchase 4,625,619 shares of our common stock, at an average price per share of approximately \$9.38. The amount of any future repurchases will depend on market conditions and other factors.

Acquisition of eMedicine.com, Inc. On January 17, 2006, WHC acquired eMedicine.com, Inc. (eMedicine), a privately held online publisher of medical reference information for physicians and other healthcare professionals, for \$25.5 million. The results of operations of eMedicine will be included in the WebMD segment.

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HEALTHCARE INFORMATION SERVICES AND TECHNOLOGY SOLUTIONS

We provide services that help consumers, healthcare providers and health plans navigate the complexity of the healthcare system. Our products and services promote more informed decision-making, streamline administrative and clinical processes, increase efficiency and reduce costs by facilitating information exchange, communication and electronic transactions between healthcare participants.

Emdeon Business Services

Overview

To ensure timely reimbursement and comply with managed care requirements, healthcare providers must interact effectively with healthcare payers from the first point of patient contact until final payment has been received. Through Emdeon Business Services, we provide solutions that automate key business and administrative functions for 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 communication services. Our services allow providers and payers to replace manual processes, phone calls and faxes with electronic transactions and, by doing so, to save time and money. 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. Through our ViPS business, 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. Our solutions are designed to provide payers and providers not only with connectivity, but also with the information and data necessary to facilitate rapid, accurate payment processing and to increase the effectiveness of the clinical encounter.

We provide our payer and provider customers connectivity through an integrated electronic transaction processing system. We refer to these connectivity services as electronic data interchange, or EDI. Customers access our connectivity services through the Internet, through dedicated high speed communications lines and by modem over standard telephone lines. Transactions received from providers are validated for proper format and content and then translated in accordance with payer specifications before being submitted to the payer's system. This validation and translation increases the likelihood that provider transactions will be successfully processed by the payer's system, leading to gains in efficiency and improved cash flows for providers.

Although these EDI services remain an important part of what we do, we have substantially expanded our service offerings in recent years through both acquisitions and internal efforts. We now provide healthcare payers with transaction processing technology, decision support solutions, consulting services and outsourcing services. Our services for payers also include conversion of paper claims to electronic ones and related document management services, as well as print-and-mail services for the distribution of checks, remittance advice and explanation of benefits. Our services for providers include a full suite of revenue cycle management products, including 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. We are focused on continuing to increase the percentage of healthcare transactions that are handled electronically and on providing enhanced capabilities and additional solutions that can be used by payers and providers to automate the entire reimbursement process.

We generate revenues by selling our EDI services to healthcare payers and providers, generally on either a per transaction basis or, in the case of some providers, on a monthly fixed fee basis. Transaction fees vary according to the

type of transaction and other factors, such as volume level commitments. We may also charge one-time implementation fees to providers and payers. We also generate revenue by selling our document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. In addition, we receive software license fees and software and hardware maintenance fees from healthcare payers who license our systems for converting paper claims into electronic ones. Our ViPS business receives license fees from healthcare payers, based on the number of covered members, for use of its software. ViPS also provides business and information technology consulting services

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to its customers on a time and materials basis. ViPS contracts with the federal government are typically on a cost-plus award fee structure.

Customer and Vendor Relationships

Customers. Emdeon Business Services customers consist of: healthcare providers, such as physician offices, dental offices, billing services, national laboratories, pharmacies and hospitals; and healthcare payers, including Medicare and Medicaid agencies, Blue Cross and Blue Shield organizations, pharmacy benefit management companies, commercial health insurance companies and managed care organizations.

Healthcare Providers. Emdeon Business Services can help healthcare providers automate every step of the reimbursement cycle, including: checking patient coverage eligibility information; seeking pre-authorization from a payer for services; submitting and tracking claims; and automated payment posting, credit card billing and patient statement processing. Our EDI connectivity services reduce paperwork and the need for communication by mail, telephone and fax, resulting in cost savings for providers, as well as for payers. These services also expedite the reimbursement process, which can result in a lower average number of outstanding accounts receivable days for providers. In addition, the use of EDI for eligibility and other coverage-related transactions can save hospital, physician and dentist office staff significant amounts of time compared to phone or other individual verification methods and allow them to provide faster answers to patient questions regarding coverage.

Healthcare Payers.

General. For a healthcare payer, the administrative cost of supporting patient medical encounters includes eligibility and benefit information distribution, intake of paper and electronic claims, claim adjudication, payment and explanation of benefits (or EOB) distribution, as well as a wide variety of member and provider service and communication activities. Emdeon Business Services provides services that help automate and reduce the cost and improve the accuracy of these processes. Specifically, our electronic transaction services automate the data exchange between healthcare providers and payers for patient eligibility and benefits information, claims transactions, remittance information, referrals, claim status information and other processes.

Managed Gateway Services. Payers can outsource to us responsibility for acting as the gateway through which their electronic claims are received. We believe that payers using us as their managed gateway for inbound claims and claim-related transactions benefit from cost savings, improved reliability and improved auto-adjudication rates. Our systems can apply customized payer-specific business rules to these transaction processes to further improve payer auto-adjudication rates (which means the percentage of claims that are adjudicated by the payer's computer systems, without review by payer personnel), which provides additional cost savings to our clients. These automation tools, in conjunction with our imaging and scanning services for inbound transactions and print-and-mail services for remittances and other outbound communications, allow payers to better focus on their core activities: provider network management, employer marketing and contracting, benefit plan design, and member service. In addition, by outsourcing patient encounter transaction processes to us, payers can reduce their capital expenses and operating costs.

Information System Vendors. We work with numerous medical and dental practice management system vendors, hospital information system vendors and other service providers to provide integrated transaction processing between their systems and ours. Most practice management and hospital information systems support, and can be integrated with, our connectivity services. Many practice management system vendors, including Emdeon Practice Services, market a private label brand of our transaction services that they have integrated with their systems. We pay sales

commissions to some of these vendors as an inducement to use Emdeon Business Services. We work together with these vendors to increase the percentage of healthcare transactions that are handled electronically.

Clearinghouses. Some healthcare transaction clearinghouses also use our services to transmit transactions to payers that they have received from healthcare providers. We pay sales commissions to some of these

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clearinghouses as an inducement to use Emdeon Business Services to send the transactions submitted through their systems.

Our Reimbursement Cycle Solutions

General. Emdeon Business Services began as a clearinghouse for electronic healthcare claims transactions between physician offices and commercial healthcare payers and continues to be a leader in those services. Emdeon Business Services connectivity services have grown to include additional transactions for additional types of providers and payers and other types of transaction-related services. Emdeon Business Services now provides connectivity throughout the healthcare reimbursement cycle:

- beginning with patient insurance eligibility and benefit verification,
- continuing through the claim submission process,
- followed by tracking the reimbursement through claim status inquiries, and
- concluding with electronic remittance information and payment posting.

Providers can also use our services to obtain authorization from payers, at the point of care, for services and referrals to other providers.

Our all-payer services include the capture, validation and routing of transactions on behalf of not just commercial payers, but also Blue Cross Blue Shield payers, Medicare and Medicaid. Use of a single reimbursement cycle management solution that allows a provider office to interact electronically with all of their payers facilitates better reporting on transaction status, improved traceability of transactions and more efficient workflow for the administrative staff. Provider offices without such a solution typically receive five or more different reports that they then have to reconcile in order to manage their accounts receivable.

Healthcare providers access our transaction services both directly and through their relationships with integrated delivery networks, clinics, physician and dental practice management system vendors, hospital information management system vendors, and retail pharmacy chains. Providers initiate transactions using our proprietary transaction management applications (see Proprietary Transaction Management Applications below), their practice management systems or other computer systems or networks. Providers submit transactions to our clearinghouse by modem connections using regular telephone lines, using dedicated high speed telecommunications services and over the Internet. At our clearinghouse, the transaction is formatted and translated in accordance with the payer's specifications and sent to the payer's claims adjudication and/or real-time database systems.

ABF. Through Advanced Business Fulfillment LLC, which we refer to as ABF, we provide healthcare paid-claims communication services for healthcare payers. ABF's operations are supported by proprietary software and systems that allow healthcare payers to outsource print-and-mail activities by sending an electronic feed to ABF. By outsourcing these services to ABF, its clients can reduce operating costs and capital expenditures. ABF's systems include a Web-based suite of management tools to facilitate the printing and mailing of checks and remittance advice to providers and explanation of benefits (EOBs) to plan members. These management tools allow clients to control the processes they have outsourced to ABF and to access archived data from their desktops. ABF has worked closely with leading claims processing system vendors to allow its software to interface with their systems. In return for marketing ABF's post-adjudication services and for the creation and maintenance of an ABF-specific data extract, ABF makes periodic payments to vendor partners.

Healthpayers USA is ABF's proprietary program to cross-consolidate provider mail in order to create savings in postal and other costs for its clients. Healthpayers USA screens, sorts and consolidates mail from any number of its clients destined for a single provider into one package and automatically produces a recipient cover sheet that itemizes the contents. ABF and its clients share the resulting savings.

ExpressBill. Through ExpressBill, we provide patient billing, payment and communications services to healthcare practitioners and hospitals. ExpressBill also provides print-and-mail services to high volume

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commercial customers. ExpressBill accepts client data via modem or the Internet, generates printed materials and prepares them for mailing. Our ExpressBill services include:

Patient Mailings. On behalf of healthcare provider customers, we print invoices, account statements, collection letters, recall notices and other communications and mail them to patients.

Paper Claims. Claims that cannot be sent electronically to payers can be sent by healthcare providers electronically to ExpressBill, where we print and mail them on their behalf.

Payment Processing. We process payments on behalf of providers and other customers, receiving and depositing checks, posting payments and transmitting funds in accordance with customer instructions.

Electronic Presentment and Payment Services. Our electronic presentment and payment services offer healthcare providers the ability to present statement and invoice images to patients electronically and to receive payment via the Internet.

Proprietary Transaction Management Applications. We provide various products designed to assist healthcare providers in utilizing our transaction services and managing their reimbursement cycle processes, including:

Emdeon Claim Master. Through our Emdeon Claim Master service, providers can securely access our transaction services through the Internet. Emdeon Claim Master can be used as a stand-alone system or as a complement to a practice management system or hospital information system. Claims are captured from the source healthcare information system and incorporated into the Emdeon Claim Master relational database to be tracked through event-driven updates. The Emdeon Claim Master database serves as the repository for all claim management functions including viewing, editing (in real time), correcting, submitting and managing payer responses. During validation, claims are separated into clean claims and those needing additional information. Clean claims are passed on to our clearinghouse in a HIPAA-compliant format and then submitted to the appropriate payers. Claims needing additional information are edited, corrected, and then submitted. With Emdeon Claim Master's wide array of reporting and display options, providers can clearly understand the location and status of any claim or batch of claims at any given time, including the status of all claims in the system, types of claim errors and list of claims sorted by dollar amount, work queue and payer.

Emdeon Office. Through our Emdeon Office Internet-based service, providers can securely access our transaction services through either a standard dial-up or high speed DSL or cable modem. Emdeon Office can be used as a stand-alone system or as a complement to a practice management system through an import and data management function that allows transactions to be generated from the practice management system and submitted through Emdeon Office. In addition, our practice management system vendor partners may elect to market a private-label brand version of Emdeon Office.

Emdeon Assistant. Emdeon Assistant integrates with hospital information systems to automate various registration activities such as insurance eligibility verification, credit checking and address verification. Emdeon Assistant can be configured to automatically perform real-time tasks during patient registration. This saves the registration staff time by eliminating the need to use separate systems for registration and for eligibility verification. The eligibility response can be automatically stored within the patient record as a permanent reference.

Emdeon Self-Pay and Receivable Analysis. Emdeon Self-Pay and Receivable Analysis is an electronic screening service designed to verify Medicaid and other forms of insurance eligibility in an electronic batch format. The healthcare provider submits a file electronically and the file is processed against the Emdeon payer

databases to determine eligibility. Emdeon Business Services customers use this service to identify Medicaid and other forms of eligibility that may apply to patients who have been classified as not having coverage. The resulting reclassification often results in significant reimbursements.

Emdeon Accupost. Emdeon Accupost automates the posting of payments received from governmental and commercial payers that provide an electronic remittance advice into the providers' financial

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accounting system. Automated posting is completed in a fraction of the time it takes to perform these same tasks manually and is more accurate.

Our Clinical Solutions

Emdeon Clinician is an Internet-based solution that streamlines the flow of information between providers, pharmacies, payers and labs. This product supports:

- electronic ordering of clinical tests and the reporting of test results between healthcare providers and labs, and
- electronic prescribing that references medication histories, payer formularies, and drug usage reports at the point of care.

The Emdeon Clinician suite of solutions is designed to integrate with most physician practice management systems and electronic medical record systems through most web-enabled devices. The result is secure delivery of accurate electronic medical record information into the workflow of the physician when needed for making care decisions. Emdeon Clinician can help healthcare providers reduce costs and improve the quality of patient care by improving order entry and prescription accuracy, by expediting the delivery of lab results and prescription renewal authorization requests, and by enhancing overall communications among providers, pharmacies, payers and labs.

ViPS

ViPS provides information technology, decision support solutions and consulting services to government, Blue Cross Blue Shield (BCBS) and commercial healthcare payers. ViPS is a leader in helping the government and healthcare industry manage large data volumes and repositories through information technology. We acquired ViPS, Inc. in August 2004.

Government Solutions. ViPS Government Solutions Group provides technology services and project personnel to federal and state agencies, such as the Centers for Medicare and Medicaid Services (CMS) as well as to key information services contractors for those agencies. ViPS personnel provide systems support for data warehousing, claims processing, decision support, and fraud detection. In addition, ViPS consultants assess workflow, design complex database architectures, and perform data analysis and analytic reporting functions for agencies and contractors in the public sector. For CMS, ViPS products and services support Medicare Part A, Part B, Durable Medical Equipment and Part D.

Working with Northrop Grumman's Mission Systems Group, ViPS designed and continues to support CMS's Medicare Beneficiary Database, which serves as the foundation for managing enrollment for the new Medicare prescription drug benefit under the Medicare Prescription Drug, Improvement and Modernization Act, referred to as the MMA. The MMA, signed into law in December 2003, is the most significant change to Medicare since the program's founding in 1965 and is the largest budget increase in a government entitlement program in the past forty years. The new drug benefit gives beneficiaries access to coverage under prescription drug insurance policies. ViPS is currently working on several projects relating to the MMA, including:

Centralized Medicare Beneficiary Eligibility Transaction System. This system will be used by healthcare providers and other submitters, network service providers and clearinghouses. ViPS is providing overall program management for this system. For this project, ViPS, acting as the prime contractor to the government, is working with other Emdeon Business Services units and benefiting from their EDI expertise and is also working with Northrop Grumman Mission Systems.

System to Support the Retiree Drug Subsidy Provisions of the MMA. Under the MMA, employers are eligible for a financial subsidy from Medicare if they keep retiree beneficiaries on their prescription drug plan rather than have them move to the new Medicare prescription drug benefit. ViPS, acting as the prime contractor to the government, is working with Group Health Incorporated (GHI), Arkansas Blue Cross Blue Shield and Northrop Grumman Mission Systems on this project, which includes responsibility for processing enrollment applications and payment requests, issuing payments and

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remittance advices to eligible employers, providing a call center, conducting outreach activities, performing fraud analysis and providing related training.

Customer Support for Medicare Modernization (CSMM). Under the CSMM task order, ViPS is responsible for providing support to the various Part D Plans in order to enable them to interface with CMS to provide the new prescription drug benefit. The support includes facilitating data center connectivity and access privileges, facilitating testing between the Plans and CMS, and supporting a wide variety of ad hoc reporting for CMS. ViPS established the CSMM Technical Help Desk and an informational web site. This has been identified by CMS as a critical initiative for the Part D program.

Drug Data Processing System (DDPS). The goal of this project is to develop and implement a system to receive and validate the new Medicare drug claim data, populate a data warehouse, interface with other CMS systems, and perform analysis of the data to support payment reconciliation. The scope of work was expanded in July 2005 to include development of a parallel solution using Teradata technology. We understand that CMS's vision is that this technology will ultimately replace the core solution and be the basis for its future data warehouse solutions.

Coordination of Benefits (COB). COB is at the center of several of the new MMA initiatives, including an expanded scope to collect Part D COB data. The COB contract establishes, as a centralized operation under a single contractor, the performance of all activities that support the collection, management and reporting of other insurance coverage of Medicare beneficiaries. ViPS, as a subcontractor to GHI, developed, implemented, and currently maintains the multiple subsystems that collectively are responsible for processing these COB functions.

We believe ViPS is well-positioned to play a key role in the implementation of the MMA and to compete for additional related projects.

Healthpayer Solutions. ViPS Healthpayer Solutions Group develops and markets software, data warehouses and tools for disease management, predictive modeling, provider performance, HEDIS® quality improvement, healthcare fraud detection and financial management. The products include:

MCSOURCE. MCSOURCE is a medical management decision support system that consists of an integrated suite of analytical and Web-based applications designed to give health plans the ability to address critical issues such as medical cost and utilization, provider profiling, disease management, quality improvement and medical review. MCSOURCE's foundation is a data warehouse that can store all types of administrative healthcare information. MCSOURCE is designed to support the complexities and usage volumes of large, information-driven health plans and has been deployed to more than 20 customers, including the BCBS Federal Employee Program, where it is used to manage a data warehouse covering approximately four million lives and five years of member data.

STARSENTINEL. STARSentinel is an early-warning detection system that looks at health plan data and evaluates claims against providers' claims histories, specialty profiles and common, documented fraud schemes. By calling early attention to questionable patterns, STARSentinel helps prioritize cases and helps health plans use their resources with maximum productivity.

MedMeasures Suite. HEDIS® (Health Plan Employer Data and Information Set) is a set of standardized measures, updated annually, that is used by managed health care plans to measure, among other things, quality of care and service. Employers, consultants and consumers use HEDIS data, along with other accreditation information, to help them select a health plan. Health plans use HEDIS results to make improvements in their quality of care and service. Our MedMeasures Suite supports HEDIS reporting and other quality initiatives

through an integrated data warehouse and decision support environment.

ViPS Healthpayer Solutions also provides consulting expertise and outsourcing services to help its customers, including commercial health plans and BCBS plans, monitor clinical and financial results in order to predict risk, determine the most effective treatments and evaluate provider networks.

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Sales and Marketing

Our Emdeon Business Services sales and marketing efforts are conducted by sales, marketing and account management personnel located throughout the United States. We participate in trade shows and use direct mail and various advertising media to promote our services.

We promote our services for providers to organizations that have relationships with or access to a large number of providers, such as practice management systems vendors, hospital information systems vendors, practice management companies and other clearinghouses. In certain cases, we agree to pay a sales commission to these organizations as an inducement to use Emdeon Business Services as the clearinghouse for the transactions made through their systems or by providers with which they have relationships. We also market our services directly to small and large physician practices, dentists, hospitals and other healthcare providers. We offer our payer customers the opportunity to work with us in targeted programs to educate physicians and dentists to increase the utilization of electronic services. When a payer agrees to participate in such a program, Emdeon utilizes information supplied by the payer to target providers that may not be sending claims electronically.

A team of sales, marketing and account management personnel market our services directly to healthcare payers. In addition, in the post-adjudication services area, we have established relationships with vendors of claims processing software.

In the pharmacy EDI area, Emdeon Business Services has established relationships with large retail pharmacy chains and pharmacy software vendors.

A team of account management personnel, supported by professional services representatives, markets our ViPS Government Solutions Group products and services. The Government Solutions Group extends its government sales capabilities through relationships with leading government contractors, including Computer Sciences Corp., SAIC, BearingPoint and Northrop Grumman. ViPS often bids on government projects together with one or more of these companies. ViPS is seeking to extend its government services reach into additional government agencies.

ViPS Healthpayer Solutions Group markets its products and services nationally through a direct sales organization. Because of ViPS long-standing industry relationships, particularly with BCBS plan organizations and other large commercial payers, ViPS is often invited to bid on contracts to be awarded based on competitive bidding procedures.

Emdeon Practice Services

Overview

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. Our systems include administrative and financial applications that enable healthcare providers and their administrative personnel to manage their practices more efficiently and clinical applications that assist them in delivering quality patient care. These applications and related services: