

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

**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

**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)

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 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 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 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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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 tense.

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

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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	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

Table of Contents**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		