

EMDEON CORP
Form 10-Q
May 10, 2007

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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 March 31, 2007
- 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

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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 May 4, 2007, there were 172,157,526 shares of
Emdeon Common Stock outstanding (including unvested shares of restricted
Emdeon Common Stock issued under our equity compensation plans).

EMDEON CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the period ended March 31, 2007

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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 customers and strategic partners;

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 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 factors, including unknown or unpredictable ones, could also 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. Except as required by law or regulation, we do not undertake any 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)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 668,558	\$ 614,691
Short-term investments	32,386	34,140
Accounts receivable, net of allowance for doubtful accounts of \$1,525 at March 31, 2007 and \$1,296 at December 31, 2006	120,999	121,608
Inventory	10,478	9,922
Due from EBS Master LLC	325	30,716
Prepaid expenses and other current assets	53,452	31,871
Total current assets	886,198	842,948
Marketable equity securities	2,543	2,633
Property and equipment, net	73,147	72,040
Goodwill	337,677	337,669
Intangible assets, net	123,369	129,473
Investment in EBS Master LLC	9,534	1,521
Other assets	40,033	65,659
TOTAL ASSETS	\$ 1,472,501	\$ 1,451,943
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 2,970	\$ 3,996
Accrued expenses	49,611	113,175
Deferred revenue	95,117	87,438
Total current liabilities	147,698	204,609
1.75% convertible subordinated notes due 2023	350,000	350,000
31/8% convertible notes due 2025	300,000	300,000
Other long-term liabilities	31,547	24,179

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Minority interest in WHC	106,510	101,860
Convertible redeemable exchangeable preferred stock, \$0.0001 par value; 10,000 shares authorized, issued and outstanding at March 31, 2007 and December 31, 2006	98,826	98,768
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 4,990,000 shares authorized; no shares issued		
Common stock, \$0.0001 par value; 900,000,000 shares authorized; 456,461,757 shares issued at March 31, 2007; 449,600,747 shares issued at December 31, 2006	46	45
Additional paid-in capital	12,359,381	12,290,126
Treasury stock, at cost; 288,654,672 shares at March 31, 2007; 287,770,823 shares at December 31, 2006	(2,597,091)	(2,585,769)
Accumulated deficit	(9,334,866)	(9,341,985)
Accumulated other comprehensive income	10,450	10,110
Total stockholders' equity	437,920	372,527
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,472,501	\$ 1,451,943

See accompanying notes.

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

	Three Months Ended March 31,	
	2007	2006 (Restated)
Revenue:		
Services	\$ 97,943	\$ 252,745
Products	24,082	24,449
Total revenue	122,025	277,194
Cost of operations:		
Services	44,514	156,359
Products	9,915	10,815
Total cost of operations	54,429	167,174
Development and engineering	4,574	8,864
Sales, marketing, general and administrative	60,399	70,180
Depreciation and amortization	10,727	16,554
Interest income	9,674	4,418
Interest expense	4,717	4,691
Other income (expense), net	2,882	(542)
(Loss) income from continuing operations before income tax provision	(265)	13,607
Income tax provision	990	4,056
Minority interest in WHC income (loss)	115	(472)
Equity in earnings of EBS Master LLC	7,099	
Income from continuing operations	5,729	10,023
(Loss) income from discontinued operations, net of tax	(27)	5,567
Net income	\$ 5,702	\$ 15,590
Basic income (loss) per common share:		
Income from continuing operations	\$ 0.03	\$ 0.04
(Loss) income from discontinued operations	(0.00)	0.01
Net income	\$ 0.03	\$ 0.05
Diluted income (loss) per common share:		
Income from continuing operations	\$ 0.03	\$ 0.03
(Loss) income from discontinued operations	(0.00)	0.02
Net income	\$ 0.03	\$ 0.05

Weighted-average shares outstanding used in computing income (loss) per common share:

Basic	176,011	287,195
Diluted	186,355	295,492

See accompanying notes.

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

	Three Months Ended	
	March 31,	
	2007	2006
		(Restated)
Cash flows from operating activities:		
Net income	\$ 5,702	\$ 15,590
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loss (income) from discontinued operations, net of tax	27	(5,567)
Depreciation and amortization	10,727	16,554
Minority interest in WHC income (loss)	115	(472)
Equity in earnings of EBS Master LLC	(7,099)	
Amortization of debt issuance costs	721	728
Non-cash advertising	2,320	1,605
Non-cash stock-based compensation	9,791	11,727
Deferred income taxes	342	684
EBS working capital adjustment	(399)	
Reversal of income tax valuation allowance applied to goodwill	250	1,669
Changes in operating assets and liabilities:		
Accounts receivable	1,418	(2,666)
Inventory	(505)	241
Prepaid expenses and other, net	324	(949)
Accounts payable	(1,027)	(119)
Accrued expenses and other long-term liabilities	(47,684)	(4,407)
Deferred revenue	7,679	10,951
Net cash (used in) provided by continuing operations	(17,298)	45,569
Net cash provided by discontinued operations		1,192
Net cash (used in) provided by operating activities	(17,298)	46,761
Cash flows from investing activities:		
Proceeds from maturities and sales of available-for-sale securities	67,922	166,228
Purchases of available-for-sale securities	(65,932)	(137,815)
Purchases of property and equipment	(5,627)	(13,248)
Cash paid in business combinations, net of cash acquired		(27,328)
Proceeds from the sale of EBS	2,898	
Net repayment of advances to EBS Master LLC	19,691	
Other changes in equity of discontinued operations		1,588
Net cash provided by (used in) continuing operations	18,952	(10,575)
Net cash used in discontinued operations		(2,508)

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Net cash provided by (used in) investing activities	18,952	(13,083)
Cash flows from financing activities:		
Proceeds from issuance of Emdeon and WHC common stock	63,404	10,565
Purchases of treasury stock under repurchase program	(11,322)	(66,633)
Payments of notes payable and other	(53)	(94)
Net cash provided by (used in) financing activities	52,029	(56,162)
Effect of exchange rates on cash	184	119
Net increase (decrease) in cash and cash equivalents	53,867	(22,365)
Changes in cash attributable to discontinued operations		1,316
Cash and cash equivalents at beginning of period	614,691	155,616
Cash and cash equivalents at end of period	\$ 668,558	\$ 134,567

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 Healthcon 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 Healthcon/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).

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 March 31, 2007, the Company owned 48,100,000 shares of WHC Class B Common Stock, which represented 84.3% 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 March 31, 2007, 96.4% of the combined voting power of WHC's outstanding Common Stock.

The Company owns 48% of EBS Master LLC (EBSCo), which owns Emdeon Business Services LLC. Emdeon Business Services LLC conducts the business that comprised the Company's Emdeon Business Services segment until the Company sold a 52% interest in that business to an affiliate of General Atlantic LLC on November 16, 2006 (EBS Sale). Emdeon Business Services and EBS are used below to refer to the business owned by EBSCo and, with respect to periods prior to the consummation of the EBS Sale, to the reporting segment of Emdeon. In connection with the EBS Sale, the Company transferred its rights to the name Emdeon and related intellectual property to EBS and agreed to change its name, after a transition period, to one not including Emdeon. In April 2007, the Company's Board of Directors determined that the Company's new name will be HLTH Corporation. The Company expects to complete the steps required to implement the name change during May 2007. The Company's ticker symbol will remain HLTH after the name change.

The Company's consolidated financial statements for the three months ended March 31, 2006 have been restated to correct the previously reported income tax provision which is more fully described in Note 14, Restatement of Consolidated Financial Statements.

Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of Emdeon Corporation and its subsidiaries and have been prepared in United States dollars, and in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated accounts include 100% of the assets and liabilities of the majority-owned WHC. Additionally, the minority stockholders' proportionate share of the equity in WHC is recorded as minority interest in WHC in the accompanying consolidated balance sheets and the minority stockholders' proportionate share of net income or net loss is reflected as minority interest in WHC income (loss) in the accompanying consolidated statements of operations.

The Company's 48% ownership in EBSCo is being accounted for under the equity method since November 16, 2006, the transaction date. Accordingly, prior to the transaction date, the historical results of operations of EBS are reflected in the consolidated results of operations of the Company. See Note 3 for further details.

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