EMDEON CORP
Form 10-K
March 01, 2007

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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, 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** *(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:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.0001 per share	The Nasdaq Stock Market LLC

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

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

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 o No þ

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 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. 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. (Check one):

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the registrant s definitive proxy statement to be filed with the Commission relating to the registrant s 2007 Annual Meeting of Stockholders is incorporated by reference into Part III.

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WebMD®, WebMD Health®, CME Circle®, eMedicine®, MedicineNet®, Medscape®, MEDPOR®, Medsite®, POREX®, Publishers Circle®, RxList®, Subimo®, Summex®, theheart.org®, The Little Blue Book™ and ViPS℠ are among the 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 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 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 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 factors, including unknown or unpredictable ones, could also 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. 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.

DEFINITIONS OF CERTAIN MEASURES

In this Annual Report, we provide information regarding usage of *The WebMD Health Network* that WebMD has determined using internal technology that identifies and monitors usage by individual computers. As used in this Annual Report:

A unique user or unique visitor during any calendar month is an individual computer that accesses a Web site in *The WebMD Health Network* during the course of such calendar month, as determined by WebMD s tracking technology. Accordingly, with respect to such calendar month, once an individual computer accesses that Web site in *The WebMD Health Network*, that computer will generally be included in the total number of unique users or visitors for that month, regardless of the method by which such computer accesses that Web site (i.e., whether directed by an individual or by automated software programs). Similarly, with respect to any calendar month, a computer accessing a specific Web site in *The WebMD Health Network* may only be counted once as a single unique user or visitor regardless of the number of times such computer accesses that Web site or the number of individuals who may use such computer. However, if that computer accesses more than one site within *The*

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WebMD Health Network during a calendar month, it will be counted once for each such site. A computer that does not access any of the Web sites in *The WebMD Health Network* during a particular calendar month is not included in the total number of unique users or visitors for that calendar month, even if such computer has in the past accessed one or more of these Web sites. In addition, if a computer blocks WebMD s tracking technology, it will be counted as a unique user or visitor in a particular month each time it visits one of these Web sites.

A page view is a Web page that is sent to the browser of a computer upon a request made by such computer and received by a server in *The WebMD Health Network.* The number of page views in *The WebMD Health Network* is not limited by its number of unique users or visitors. Accordingly, each unique user or visitor may generate multiple page views.

With respect to any given time period, aggregate page views are the total number of page views during such time period on all of the Web sites in *The WebMD Health Network.* Aggregate page views do not include page views from WebMD s private portals.

Third-party services that measure usage of Internet sites may provide different usage statistics than those reported by WebMD s internal tracking technology. These discrepancies may occur as a result of differences in methodologies applied and differences in measurement periods. For example, third-party services typically apply their own proprietary methods of calculating usage, which may include surveying users and estimating site usage based on surveys, rather than based upon WebMD s tracking technology.

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PART I

Item 1. *Business*

INTRODUCTION

Corporate Information

Emdeon Corporation is a Delaware corporation that was incorporated in December 1995 and commenced operations in January 1996 as Healtheon Corporation. We changed our name to Healtheon/WebMD Corporation in November 1999, to WebMD Corporation in September 2000 and to Emdeon Corporation in October 2005. 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.

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.

Overview of Our Businesses

WebMD. WebMD, a publicly traded subsidiary of Emdeon, provides health information services for consumers, physicians, healthcare professionals, employers and health plans through its public and private online portals and health-focused publications. WebMD s operations include:

> ***Public Online Portals.*** WebMD s consumer health portals enable individuals to obtain detailed information on a particular disease or condition, locate physicians, store individual healthcare information, assess their personal health status, receive periodic e-newsletters and alerts on topics of individual interest, and participate in online communities with peers and experts. WebMD s professional portals make it easier for physicians and healthcare professionals to access clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education (or CME) credit and communicate with peers. WebMD s network of public portals provides a means for advertisers and sponsors to reach, educate and inform large audiences of health-involved consumers and clinically active physicians. WebMD generates revenue by providing healthcare and consumer products companies with opportunities to reach its public portals audience through a variety of content sponsorship formats and advertising products. In addition, WebMD creates and distributes accredited online CME programs funded by grants from a variety of sponsors.
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> ***Private Online Portals.*** WebMD s 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. WebMD also offers related services for the use of such employees and members, including lifestyle education and personalized telephonic health coaching. WebMD s private portals provide a secure, personalized user experience by integrating individual user data (including personal health information), plan-specific data from our employer or health plan clients and much of the content, decision-support technology and personal communication services that we make available through our public portals. WebMD generates revenues by licensing its private portals to employers and payers for use by their employees and members. WebMD s private portals do not have any advertisements and do not generate revenue from advertising or sponsorship.

Publishing and Other Services. WebMD also provides complementary offline health content. WebMD s offline publications include *The Little Blue Book,* a physician directory, *ACP Medicine* and *ACS Surgery: Principles of Practice*, its medical reference textbooks, and *WebMD the Magazine,* a consumer publication launched in early 2005 that WebMD distributes free of charge to physician office waiting rooms.

WebMD revenue was $253.9 million in 2006, $168.2 million in 2005 and $134.3 million in 2004.

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In this Annual Report, we use the name WebMD to refer to the reporting segment of Emdeon that consists of the WebMD business and the name WHC to refer to WebMD Health Corp., the public company that owns the WebMD business. As of the date of this Annual Report, Emdeon owns 84.6% of the outstanding common stock of WHC and owns 96.5% of the combined voting power of WHC s outstanding common stock. 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.

ViPS. Emdeon s ViPS segment consists of a group of wholly owned subsidiaries of Emdeon. ViPS provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers. ViPS solutions and services help its clients improve patient outcomes, increase customer satisfaction and reduce costs.

> ***Government Solutions Group.*** Through its Government Solutions Group, ViPS provides customized services and specialized project personnel to federal and state agencies, both as a prime contractor and as a subcontractor of other government contractors. ViPS consultants manage projects of various sizes, assess workflows, design complex database architecture, integrate third-party packages and perform data analysis and analytic reporting functions. ViPS contracts with the federal government are typically on a cost-plus fee structure.
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> ***Healthpayer Solutions Group.*** Through its HealthPayer Solutions Group, ViPS develops and markets software for commercial healthcare payers, including data warehouses and tools for medical management, physician performance measurement, HEDIS® (Health Plan Employer Data and Information Set) compliance reporting, healthcare fraud detection and financial management. ViPS receives license fees from its healthcare payer customers, typically based on the number of covered members, for use of its software and provides business and information technology consulting services to payer customers on a time-and-materials basis or a fixed-fee basis.

ViPS revenue was $98.9 million in 2006, $90.3 million in 2005 and $24.7 million in 2004 (from August 11, the date of acquisition, through December 31) .

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. Porex is an international business with manufacturing operations in North America, Europe and Asia and customers in more than 65 countries. Porex revenue was $85.7 million in 2006, $79.1 million in 2005 and $77.1 million in 2004. Emdeon s Porex segment consists of a group of wholly owned subsidiaries of Emdeon.

Emdeon Business Services (EBS). Emdeon owns 48% of EBS Master LLC, which owns Emdeon Business Services LLC. Emdeon Business Services LLC conducts the business that, until the sale by Emdeon of a 52% interest in that business to an affiliate of General Atlantic LLC on November 16, 2006 (which we refer to as the EBS Sale), comprised the Emdeon Business Services segment of Emdeon. In this Annual Report, we use the name EBSCo to refer to EBS Master LLC and we use the names Emdeon Business Services and EBS 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. For a description of the EBS Sale, see Significant Corporate Transactions During 2006 EBS Sale below and Note 3 to the Consolidated Financial Statements included in this Annual Report.

EBS provides revenue cycle management solutions and electronic transaction services that automate key business and administrative functions for healthcare payers and providers, including: electronic patient eligibility and benefit

verification; electronic and paper claims processing; electronic and paper paid-claims communication services; and patient billing, payment and communications services. EBS s provider customers include physicians, dentists, billing services, laboratories, pharmacies and hospitals. EBS s payer customers include commercial health insurance companies, managed care organizations, Medicare and Medicaid agencies, Blue Cross and Blue Shield organizations, and pharmacy benefit management companies. In addition, EBS works with numerous medical and dental practice management system vendors, hospital

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information system vendors and other service providers to provide integrated transaction processing between their systems and EBSCo s.

EBS generates revenues by selling its 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. EBS also generates revenue by selling its document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. In addition, EBS receives software license fees and software and hardware maintenance fees from healthcare payers who license its systems for converting paper claims into electronic ones. EBS segment revenue was $661.1 million in 2006 (through November 16, 2006), $689.3 million in 2005 and $682.1 million in 2004.

Significant Corporate Transactions During 2006

EPS Sale. On August 8, 2006, we entered into a Stock Purchase Agreement for the sale of Emdeon Practice Services, Inc. (which, together with its subsidiaries comprised our Emdeon Practice Services, or EPS, segment) to Sage Software, Inc., an indirect wholly owned subsidiary of The Sage Group plc. On September 14, 2006, we completed the transaction, which we refer to in this Annual Report as the EPS Sale. Pursuant to the Stock Purchase Agreement, we received net cash proceeds of approximately $532 million, which does not include $35 million being held in escrow as security for Emdeon s indemnification obligations under the Stock Purchase Agreement. One-third and two-thirds of the amount in escrow are scheduled to be released twelve and eighteen months from the closing date, in each case subject to any paid or pending claims.

In connection with the EPS Sale, EPS entered into a new agreement with EBS and amended existing agreements with WebMD. Under the agreement with EBS, EBS will continue as the exclusive provider of electronic healthcare transaction services and patient statement services for EPS through 2013. Under the amended agreements with WebMD, EPS agreed to continue its relationship with WebMD to exclusively integrate WebMD s personal health record with its clinical products, including its electronic medical record.

The historical financial information of EPS has been reclassified as discontinued operations in the Consolidated Financial Statements included in this Annual Report. For additional information regarding the EPS Sale, see Note 2 to those Consolidated Financial Statements.

EBS Sale. As noted in Overview of Our Businesses Emdeon Business Services (EBS) above, on November 16, 2006, we completed the sale of a 52% interest in EBS to an affiliate of General Atlantic LLC (we refer to that affiliate as General Atlantic below). The following is a description of the EBS Sale and our investment in EBSCo:

> ***Financial Terms.*** We received cash proceeds of approximately $1.2 billion at closing, and received approximately $10.7 million subsequent to December 31, 2006 in connection with a preliminary working capital adjustment. The acquisition of EBS by EBSCo was financed with approximately $925 million in bank debt and an investment of approximately $320 million by General Atlantic. The bank debt is an obligation of Emdeon Business Services LLC and its subsidiaries and is guaranteed by EBSCo, but is not an obligation of or guaranteed by Emdeon or any of Emdeon s subsidiaries.
>
> ***Obligation to Change Our Name.*** Under the transaction agreements for the EBS Sale, EBSCo and its subsidiaries received our rights to the name Emdeon for use in their businesses. We have agreed to change the name of our company on or before May 16, 2007. Our ticker symbol will remain HLTH.
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> ***Relationship with WebMD.*** In connection with the EBS Sale, EBS agreed to continue its strategic relationships with WebMD and to market WebMD s online decision-support platform and tools that support

consumer directed health plans and health savings accounts to its payer customers for integration into their consumer directed health plan offerings. In addition, EBS agreed to license certain de-identified data to Emdeon and its subsidiaries, including WebMD, for use in the development and commercialization of certain applications that use clinical information, including consumer decision-support applications.

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Accounting Treatment. EBS is not treated as a discontinued operation in the Consolidated Financial Statements included in this Annual Report because we retained a significant ownership interest. Our 48% ownership interest in EBSCo is being accounted for under the equity method beginning on November 17, 2006, the day after the EBS Sale was completed. Accordingly, EBS is included in our 2006 consolidated financial results for 47 days in the fourth quarter of 2006 and for all prior periods. However, for the remaining 45 days of the fourth quarter of 2006, it is reflected in the line item Equity in earnings of EBS Master LLC.

Governance of EBSCo and Related Matters. EBSCo is managed by a Board of Directors initially comprised of six members, three of whom were designated by us and three of whom were designated by General Atlantic. We have appointed the following three individuals to serve as directors of EBSCo: Kevin M. Cameron, our Chief Executive Officer; James V. Manning, a member of our Board of Directors and Chairman of the Audit Committee of the Board; and Charles A. Mele, our Executive Vice President and General Counsel. The right to designate directors continues so long as the parties respective interests in EBSCo continue to exceed a certain threshold. Within two years from the closing date of the EBS Sale, such Board of Directors will be reconstituted to consist of seven members, up to two of whom may be appointed by us and up to two of whom may be appointed by General Atlantic (so long as the parties respective interests in EBSCo continue to exceed a certain threshold), and three of whom must be independent directors to be jointly designated by us and General Atlantic. Under the LLC Agreement, certain fundamental transactions and other matters involving EBSCo require the approval of us and of General Atlantic, so long as the parties respective interests in EBSCo continue to exceed a certain threshold. Following the second anniversary of the closing date of the EBS Sale, either Emdeon or General Atlantic may cause a sale of EBSCo, subject to a minimum required return for the other party in the case of a sale prior to the third anniversary of such closing date, and, at all times, subject to the other party s right of first offer. The LLC Agreement contains other customary provisions regarding the management and operation of EBSCo and the rights and obligations of its members, including provisions relating to: registration rights, restrictions on transfer of interests in EBSCo, rights of first offer with respect to certain transfers of interests in EBSCo, drag-along and tag-along rights with respect to certain transfers of interests in EBSCo, preemptive rights and information rights.

For additional information regarding the EBS Sale, see Note 3 to those Consolidated Financial Statements.

Tender Offer. On October 20, 2006, Emdeon commenced a tender offer to purchase shares of its common stock, contingent upon the closing of the EBS Sale. On December 4, 2006, the tender offer was completed and, as a result, we repurchased 129,234,164 shares of our Common Stock at a price of $12.00 per share for an aggregate price of approximately $1.55 billion, using proceeds from the EPS Sale and EBS Sale. The shares purchased in the tender offer represented approximately 45% of the outstanding shares of our Common Stock immediately prior to the tender offer.

Recent Developments

Redesign of WebMD.com and Launch of New Content Management System. In February 2007, WebMD launched a redesigned version of *WebMD.com* that introduced an enhanced level of personalization, information and community interaction that enriches the user experience and further empowers users of the site to make more informed health decisions. WebMD has also made improvements to the search functions on *WebMD.com* that enable users to further refine their searches by treatment, prevention, symptom and related conditions so that they are provided with more relevant search results. Also, WebMD s new content management system allows it to create sites that are easier to navigate and to integrate with various types of applications. The site redesign and WebMD s new content management system are part of a series of improvements in the infrastructure WebMD uses to store, manage, develop and display content across *The WebMD Health Network.*

Reimbursement to WebMD for Use of Net Operating Loss Carryforwards. Emdeon and WHC are parties to an Amended and Restated Tax Sharing Agreement. Under the Tax Sharing Agreement, Emdeon agreed to reimburse WHC, at the current federal statutory tax rate of 35%, for net operating loss carryforwards

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attributable to WHC that were utilized by Emdeon as a result of the EPS Sale and the EBS Sale. On February 2, 2007, Emdeon and WHC executed a letter setting forth a procedure for Emdeon to make the required reimbursement based on an estimate of the expected amount of the reimbursement, subject to a later adjustment when the amount has been finally determined. As contemplated by the Tax Sharing Agreement and that letter, Emdeon transferred $140 million in cash to WHC on February 6, 2007.

Available Information

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.

WebMD

Overview

WebMD is a leading provider of health information services to consumers, physicians and other healthcare professionals, employers and health plans through its public and private online portals and health-focused publications. The interactive online healthcare information, decision-support applications and communications services that WebMD provides:

- enable consumers to obtain detailed information on a particular disease or condition, locate physicians, store individual healthcare information, assess their personal health status, receive periodic e-newsletters and alerts on topics of individual interest, and participate in online communities with peers and experts;

- provide physicians and healthcare professionals with access to clinical reference sources, stay abreast of the latest clinical information, learn about new treatment options, earn continuing medical education (or CME) credit and communicate with peers; and

- enable employers and health plans to provide their employees and plan members with personalized health and benefit information and decision-support technology that helps them make more informed benefit, provider and treatment choices.

The WebMD Health Network consists of the public portals that WebMD owns, such as *www.WebMD.com* (which we sometimes refer to as *WebMD Health*), our primary public portal for consumers, and *www.Medscape.com* (which we sometimes refer to as *Medscape from WebMD*), WebMD s primary public portal for physicians and other healthcare professionals, as well as third-party sites through which WebMD provides its branded health and wellness content, tools and services. *The WebMD Health Network* does not include its private portals for employers and health plans, which are described below. In 2006, *The WebMD Health Network* had an average of more than 31 million unique monthly users and generated over three billion aggregate page views.

WebMD.com and WebMD s other consumer portals help consumers take an active role in managing their health by providing objective healthcare and lifestyle information. WebMD s content offerings for consumers include access to

health and wellness news articles and features, and decision-support services that help them make better informed decisions about treatment options, health risks and healthcare providers. *Medscape from WebMD* and WebMD s other portals for healthcare professionals help them improve their clinical knowledge and practice of medicine. The original content of WebMD s professional sites, including daily medical news, commentary, conference coverage, expert columns and CME activities, are written by authors from widely respected academic institutions and edited and managed by our in-house editorial staff.

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WebMD s public portals generate revenue primarily through the sale of advertising and sponsorship products, including CME services. WebMD does not charge user fees for access to its public portals. WebMD s advertisers and sponsors are able to reach, educate and inform target audiences of health-involved consumers and clinically-active physicians through *The WebMD Health Network.* WebMD works closely with its customers to develop programs to reach specific groups of consumers, physicians and other healthcare professionals and give them placement on the most relevant areas of its portals. WebMD s advertisers and sponsors consist primarily of pharmaceutical, biotechnology and medical device companies and consumer products companies whose products relate to health, wellness, diet, fitness, lifestyle, safety and illness prevention.

WebMD s private portals enable employees and health plan members to make more informed benefit, treatment and provider decisions. WebMD provides a secure, personalized user experience by integrating individual user data (including personal health information), plan-specific data from its employer or health plan clients and much of the content, decision-support technology and personal communication services that it makes available through its public portals. WebMD s applications are typically accessed through a client s Web site or intranet and provide secure access for employees and plan members. WebMD also provides personalized telephonic health coaching through Summex, a company that it acquired in June 2006. WebMD markets its private portals and related services through both its direct sales force and through selected distributors.

WebMD generates revenue from private portals through the licensing of its products to employers and to health plans, either directly or through our distributors. In addition, WebMD generates revenue from sale of its health coaching services to employers and health plans. WebMD s private portals do not generate revenue from advertising or sponsorship.

In addition to WebMD s online presence, it publishes complementary offline health content. WebMD s offline publications increase awareness of the WebMD brand among consumers, physicians and other healthcare professionals. These 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 WebMD distributes free of charge to physician office waiting rooms.

WebMD s Public Portals: The WebMD Health Network

Introduction

WebMD s content and services have made its public portals the leading online health destinations for consumers, physicians and other healthcare professionals. *The WebMD Health Network* consists of public portals owned by WebMD and third-party portals through which we provide our branded health and wellness content, tools and services.

Owned Web Sites. Most of the traffic to and utilization of *The WebMD Health Network* is derived from Web sites that WebMD owns and operates. During 2006, sites WebMD owns accounted for approximately 89% of *The WebMD Health Network s* unique users and 93% of the page views. The following provides a brief description of each of WebMD s owned public portals:

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Consumer Portal Site	Description
www.webmd.com	*WebMD Health*, our flagship consumer portal.
www.medicinenet.com	A health information site for consumers that is written and edited by practicing physicians, including an online medical dictionary with more than 16,000 medical terms.
www.rxlist.com	An online drug directory with over 1,500 drug monographs, which are comprehensive descriptions of pharmaceutical products (including chemical name, brand names, molecular structure, clinical pharmacology, directions and dosage, side effects, drug interactions and precautions).
www.emedicinehealth.com	A health information site containing articles written and edited by physicians for consumers, including first aid and emergency information that is also accessible at firstaidwebmd.com.
Professional Portal Site	
www.medscape.com	WebMD s flagship Web site for physicians and other healthcare professionals.
www.emedicine.com	A site for physicians and other healthcare professionals containing articles on over 6,500 diseases and disorders.
www.medgenmed.com	The world s first online-only, primary source, peer-reviewed general medical journal.
www.theheart.org	One of the leading cardiology Web sites, known for its depth and breadth of content in this area.
www.medsite.com	A site for physicians where they can access CME programs and manage their sponsored events.

Other Sites. The third party portals that WebMD supports include *AOL Health with WebMD*, the health channels of other AOL properties, the online *FoxNews Health Channel with WebMD*, *Psychologytoday.com* and *HealthBoards.com.* During 2006, third-party Web sites included in *The WebMD Health Network* accounted for approximately 7% of *The WebMD Health Network* s page views. WebMD sells the advertising and programs content on the portions of the third-party Web sites that it supports.

Acquisitions Included in the Public Portals in 2006

Medsite. In September 2006, we acquired the interactive medical education, promotion and physician recruitment businesses of Medsite Inc. (which we refer to as Medsite). Medsite provides educational programs to physicians, as well as e-detailing services for pharmaceutical, medical device and healthcare companies, including program development, targeted recruitment and online distribution and delivery. Traditional details are in-person meetings between pharmaceutical company sales representatives and physicians to discuss particular products. E-details are promotional interactive online programs that provide clinical education and information to physicians about medical conditions, treatments and products. Through WebMD s acquisition of Medsite, it is now able to provide its pharmaceutical and medical device customers with an expanded set of online solutions that help increase the sales efficiencies of their own direct detailing efforts. In an effort to improve operating efficiencies, several pharmaceutical companies have recently announced reductions in their field sales forces. We believe that, in their effort to achieve greater overall market efficiency, pharmaceutical companies will increase their use of online promotional marketing, including e-detailing.

eMedicine. On January 17, 2006, WebMD acquired eMedicine.com, Inc. (which we refer to as eMedicine), an online publisher of medical reference information for physicians and other healthcare professionals. Thousands of physician authors and editors contribute to the eMedicine Clinical Knowledge Base, which contains articles on over 6,500 diseases and disorders. eMedicine s consumer site, *www.eMedicineHealth.com*, contains articles written by physicians

for consumers.

Consumer Portals in The WebMD Health Network

Introduction. Healthcare consumers increasingly seek to educate themselves online about their healthcare related issues, motivated in part by the continued availability of new treatment options and in part by the larger share of healthcare costs they are being asked to bear due to changes in the benefit designs being offered by health plans and employers. The Internet has fundamentally changed the way consumers obtain information, enabling them to have immediate access to searchable information and dynamic interactive content.

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Overview of Content and Service Offerings. WebMD s goal is to provide consumers with an objective and trusted source of information that helps them play an active role in managing their health. *WebMD Health* and the other consumer portals in *The WebMD Health Network* provide their users with information, tools and applications in a variety of content formats. These content offerings include access to news articles and features, special reports, interactive guides, originally produced videos, self-assessment questionnaires, expert led Q&A s and encyclopedic references. WebMD s 90-person in-house staff, which includes professional writers, editors, designers and board-certified staff physicians, creates content for *The WebMD Health Network.* WebMD s in-house staff is supplemented by medical advisors and authors from widely respected academic institutions. The news stories and other original content and reporting presented in *The WebMD Health Network* are based on WebMD editors selections of the most important and relevant public health events occurring on any given day, obtained from an array of credible sources, including peer-reviewed medical journals, medical conferences, federal or state government actions and materials derived from interviews with medical experts. WebMD offers searchable access to the full content of its Web sites, including licensed content and reference-based content.

Decision-Support Services. WebMD s decision-support services help consumers make better-informed decisions about treatment options, health risks and healthcare providers, and assist consumers in their management and monitoring of specific conditions or treatment regimens on an ongoing basis. The following provides a brief description of some of WebMD s decision support applications:

Feature	Description
Personalized Self Assessment	Clinical, algorithm-based self assessments for major conditions yielding personalized risk score based upon the user s individual characteristics (e.g., gender, age, behavioral risks, heredity), along with customized recommendations for further education, potential treatment alternatives and a doctor report to share with the user s physician.
Symptom Checker	An interactive graphic interface with advanced clinical decision-support rules that allow users to pinpoint potential conditions associated with physical symptoms, gender and age. The Symptom Checker was created by an experienced group of WebMD physicians trained in the development of clinical decision support applications.
First Aid & Emergencies	Directs users to educational and treatment information that may be useful in the event of certain medical emergencies. Also included in this resource is a First Aid A Z glossary of terms.
Health-E-Tools	Provides access to over 80 interactive calculators, quizzes and slide shows to assess or demonstrate health topics, including a target heart rate calculator, body mass index calculator, pregnancy calculator and ovulation calendar.
WebMD® Physician Finder	Enables users to find and make an appointment with a physician based on the physician or practice name, specialty, zip code and distance.
Managing Healthcare & Benefits	Offerings that educate users on issues surrounding choosing and using health plans and managing their healthcare from a financial and quality perspective. Other coverage topics, such as Medicare, are addressed and resources and tools are available to users.
WebMD Health Manager	WebMD Health Manager is a free online service featuring a personal health record (a secure application that assists consumers in gathering, storing, and sharing essential health data in one centralized location), secure message center, personal health risk assessments for overall health as well as 15

condition-specific assessments, doctor reports, medication summaries, health calendar with reminders and alerts, printable health emergency card, family member health record keeping, weight loss, fitness and smoking cessation programs, and fully personalized e-newsletter.

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Membership; Online Communities. WebMD also provide interactive communication services to its registered members. For example, members can opt-in to receive e-newsletters on health-related topics or specific conditions and to access topic-specific events and online communities. WebMD s online communities allow its members to participate in real-time discussions in chat rooms or on message boards, and allow them to share experiences and exchange information with other members who share common health conditions or concerns.

Feature	Description
Community Centers	Community Centers are designed to allow members to share their experiences and exchange information with other members with a similar health condition or concern. Community Centers, which may include blogs, moderated message boards and posted member columns, are featured in each of the more than 60 WebMD Health Centers and connect to over 140 expert-led and peer-to-peer message boards.
e-Newsletters	Allows consumers to receive personalized e-mail newsletters on general health-related subjects and topics targeted to their particular health concerns. In 2006, WebMD offered newsletters, clinical alerts and e-mail reports covering approximately 30 topic areas, and delivered to approximately 4 million registered members.
Expert Blogs	Expert physicians and patients alike chronicle their experiences with one another in these online journals.
Ask an Expert	A forum within which users can post their health questions for experts. Provides over five new events each week and contains an archive of approximately 800 transcripts.

There are no membership fees and no general usage charges for WebMD s consumer portals. However, WebMD does offer a limited number of consumer paid subscription services in the areas of diet and fertility.

Professional Portals in The WebMD Health Network

Introduction. The Internet has become a primary source of information for physicians and other healthcare professionals, and is growing relative to other sources, such as conferences, meetings and offline journals. We believe that WebMD s professional portals, which include *Medscape from WebMD, theheart.org*, *eMedicine* and now *Medsite*, which we acquired in September 2006, as further described below, reach more physicians than any other network professional Web sites. We believe WebMD is well positioned to increase usage by existing and new members because it offers physicians and other healthcare professionals a broad range of current clinical information and resources across more than 30 medical specialties. We believe that *Medscape from WebMD* and WebMD s other professional portals should benefit from the general trend towards increased reliance on, and usage of, the Internet by physicians and other healthcare professionals.

WebMD generates revenue from its professional portals by selling advertising and sponsorship programs primarily to companies that wish to target physicians and other healthcare professionals, and also through educational grants. Users of the professional portal do not pay any fees to WebMD for the right to access any of its services.

Medscape from WebMD. Medscape enables physicians and other healthcare professionals to stay abreast of the latest clinical information through access to resources that include:

timely medical news relating to a variety of specialty areas and coverage of professional meetings and conferences;

CME activities; and

full-text medical journal articles and drug and medical literature databases.

Medscape s original content includes daily medical news, commentary, conference coverage, expert columns and CME activities written by authors from widely respected academic institutions and edited and managed by WebMD s in-house editorial staff. WebMD regularly produces in-depth interviews with medical

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experts and newsmakers, and provide alerts on critical clinical issues, including pharmaceutical recalls and product advisories. WebMD also provides access to wire service stories and other news-related content and CME programs. WebMD develops the majority of our content internally and supplements with third-party content in areas such as drug information and full-text journal articles.

WebMD also publishes an original electronic-only journal, *Medscape General Medicine* (which we refer to as *MedGenMed*), indexed in the National Library of Medicine s MEDLINE reference database. *MedGenMed,* the world s first online-only, primary source, peer-reviewed general medical journal, was established in April 1999. Visitors to *www.medgenmed.com* also can access *MedGenMed s* innovative Webcast Video Editorials as well as specialty content sections.

thehealth.org. One of the leading cardiology Web sites, known for its depth and breadth of content in this area.

Medsite. Medsite offers educational programs to physicians, as further described below, event recruitment and e-detailing services for pharmaceutical, medical device and healthcare companies, including program development, targeted recruitment and online distribution and delivery.

Membership. Users must register to access the content and features of WebMD s professional portals. Registration by users enables WebMD to deliver targeted medical content based on such users registration profiles. *Medscape from WebMD* is organized by specialty and profession, and includes areas for nurses, pharmacists, medical students, and members interested in medical policy and business of medicine topics. The registration process enables professional members to choose a home page tailored to their medical specialty or interest. WebMD offers more than 30 specialty areas for its users. There are no membership fees and no general usage charges for WebMD s professional portals. *Medscape* members receive *MedPulse*®, WebMD s weekly e-mail newsletter, which is published in more than 30 specialty-specific editions and highlights new information and CME activities on the *Medscape* site.

Continuing Medical Education (CME). WebMD, through *Medscape* and its other physician portals, is the leading distributor of online CME to physicians and other healthcare professionals, offering a wide selection of free, regularly updated online CME activities designed to educate healthcare professionals about important diagnostic and therapeutic issues. These CME programs include both original programs and third-party programs that WebMD distributes on its professional sites. In addition, *Medscape s* CME Live offerings provide real-time Webcasts of CME programs on key topics and conditions. These live Webcasts combine streaming audio and slide presentations and allow participants to interact with faculty. In 2006, over 2 million continuing education programs (a majority of which were physician CME) were completed by physicians and other healthcare professionals on *Medscape*, an increase of 61% over 2005.

WebMD believes that it has organized the operations of its professional portals to provide for appropriate separation of its education and promotion programs. WebMD s educational activities for healthcare professionals are managed by Medscape, LLC, its professional education subsidiary, including the activities of the CME units of Conceptis and Medsite. Individuals who work on educational matters are not involved with promotional programs.

WebMD s CME activities are planned and implemented in accordance with the Essential Areas and Policies of ACCME. In addition, some of WebMD s programs have been produced in collaboration with other ACCME-accredited CME providers. *Medscape* received provisional ACCME accreditation as a CME provider in July 2002 and full accreditation, for the maximum six-year period, beginning in July 2004. Such accreditation allows *Medscape* to continue to certify online CME activities. In September 2004, ACCME revised its standards for commercial support of CME. The revised standards are intended to ensure 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. We believe that WebMD has modified its

procedures as appropriate to meet the revised standards. In order for Medscape to renew its accreditation at the end of July 2010, it will be required to demonstrate to ACCME that it continues to meet ACCME requirements. For more information, see Government Regulation Regulation of Drug and Medical Device Advertising and Promotion.

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Advertising and Sponsorship

WebMD believes that *The WebMD Health Network* offers an efficient means for advertisers and sponsors to reach a large audience of health-involved consumers, clinically-active physicians and other healthcare professionals. *The WebMD Health Network* enables advertisers and sponsors to reach either WebMD s entire audience or specific groups of consumers, physicians and other healthcare professionals based on their interests or specialties. Currently, the majority of WebMD s advertisers and sponsors are pharmaceutical, biotechnology or medical device firms or consumer products companies. These companies currently spend only a very small portion of their marketing and educational budgets on online media. However, we expect their online spending to increase as a result of increased recognition of its potential advantages over offline marketing and educational activities. *The WebMD Health Network* ran approximately 800 branded or sponsored programs for its customers during 2006, approximately 570 such programs during 2005 and approximately 380 such programs during 2004.

WebMD s public portals provides advertisers and sponsors with customized marketing campaigns that go beyond traditional Internet advertising media. WebMD works with its advertisers and sponsors to develop marketing programs that are appropriately customized to target specific groups of consumers, physicians or healthcare professionals. WebMD s public portal services are typically priced at an aggregate price that takes into account the overall scope of the services provided , based upon the amount of content, tools and features we supply as well as the degree of customization that we provide for the program. In addition, WebMD s contracts often include guarantees with respect to the number of users that visit the client sponsored-area, but do not generally include assurances with respect to the number of clicks or actions taken through such Web sites. To a much lesser extent, WebMD also sells advertising on a CPM (cost per thousand impressions) basis, where an advertiser can purchase a set amount of impressions on a cost per thousand basis. An impression is a single instance of an ad appearing on a Web page. WebMD s private portals do not generate revenue from advertising or sponsorship. See Private Portals below.

WebMD provides healthcare advertisers and other sponsors with the means to communicate with targeted groups of consumers and physicians by offering placements and programs in the most relevant locations on our portals. The following are some of the types of placements and programs we offer to advertisers and sponsors:

Media Solutions. These are traditional online advertising solutions, such as banners, used to reach health-involved consumers. In addition, clients can sponsor a variety of condition-specific or specialty-specific e-newsletters, keyword searches and specific educational programs.

Sponsored Editorial Solutions. These are customized collections of articles, topics, and decision-support tools and applications, sponsored by clients and distributed within *WebMD Health.*

Patient Education Centers. Patient education centers are sponsored destinations on *Medscape* for physicians to access patient education materials on a particular topic or condition.

E-details. E-details are promotional interactive online programs that provide clinical education and information to physicians about medical conditions, treatments and products.

Key benefits that *The WebMD Health Network* offers healthcare advertisers and other sponsors include:

the network displayed over three billion pages of healthcare information to users visiting its sites in 2006, which we believe is a much larger number of pages than was published by any other sponsor supported health-oriented Web portal;

WebMD s ability to help advertisers and sponsors reach specific groups of consumers and physicians by specialty, product, disease, condition or wellness topic, which typically produces a more efficient and productive marketing campaign;

WebMD s ability to provide advertisers and other sponsors with objective measures of the effectiveness of their online marketing, such as activity levels within the sponsored content area; and

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the broad reach of *Medscape s* educational related activities for physicians and other healthcare professionals.

WebMD creates and distributes CME and other educational programs sponsored by pharmaceutical and medical device companies, as well as foundations and government agencies. The following are some of the CME products for which WebMD receives funding:

Conference Coverage. Coverage of major medical conferences.

CME Circle. Third-party CME activities, including symposia, monographs and CD-ROMs, which WebMD distributes online.

CME Live. Original online events featuring live streaming video, audio and synchronized visual presentation by experts.

CME Cases. Original CME activities presented by healthcare professionals in a patient case format.

Resource Centers. Grant-based collections of content relating to conditions such as congestive heart failure or breast cancer. These centers include news, expert columns, guidelines and reference material.

Sales and Marketing

WebMD s sales, marketing and account management personnel work with pharmaceutical, medical device, biotechnology and consumer products companies to place their advertisements and other sponsored products on WebMD s public portals and in some of WebMD s publications. These individuals work closely with clients and potential clients to develop innovative means of bringing their companies and their products and services to the attention of targeted groups of consumers and healthcare professionals, and to create channels of communication with these audiences.

Private Portals

Introduction. In response to increasing healthcare costs, employers and health plans have been enhancing wellness programs, educating employees, changing benefit plan designs to increase deductibles, co-payments and other out-of-pocket costs and taking other steps to motivate their members and employees to use healthcare in a cost-effective manner. The new plan designs include high deductible health plans that increase consumer responsibility for healthcare costs and healthcare decision-making. These are often referred to as consumer-directed health plans. Consumer-directed health plans generally combine high deductible health insurance with a tax-preferred cash account, such as a health reimbursement arrangement (HRA) or a health savings account (HSA), containing pre-tax funds that employees can spend on covered healthcare expenses. The goal is to put employees in control of the first dollars they spend on healthcare each year and give them pertinent information about healthcare costs and quality, so that they are able to make financially responsible and informed healthcare purchasing decisions.

In connection with the shift to employees of a greater portion of decision-making and responsibility for healthcare costs, employers and health plans generally also make available health and benefits information and decision-support tools to educate and help their employees make informed decisions about treatment options, health risks and healthcare providers. We believe that WebMD s Health and Benefits Manager private portals provide the tools and information employees and plan members need to take a more active role in managing their healthcare. WebMD s cost-effective, online solutions complement the employer s or payer s existing benefit-related services and offline educational efforts. As part of this increase in the use of information technology in healthcare, employees and plan

members, and employers and plans have recognized that the creation of the personal health record for an employee or plan member is an important application in centralizing the individual s experience, and allowing the individual to store, manage and access important health information to facilitate improved quality and lower cost of care. By making the needed information and decision-support tools available through a convenient and easy-to-use online service, employers and payers can help their employees and members make choices that reduce both administrative and healthcare costs. We believe that WebMD s Health and Benefits Manager tools, including its personal health record

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application, are well positioned to play a role in such efforts. A 2005 study commissioned by the Blue Cross and Blue Shield Association and conducted by the RAND Corporation concluded that Web-based treatment decision-support tools can play an important role in assisting in consumer treatment decisions to foster improved outcomes. For example, RAND cited studies that showed consumers who use decision-support tools are less likely to choose elective surgery in favor of less invasive procedures and are more likely to get preventive care.

For the reasons described above, we believe that the increased shift to employees of a greater share of decision-making and responsibility for healthcare costs, including increased enrollment in high deductible consumer-directed health plans and increased use of information technology (including personal health records) to assist employees in making informed decisions about healthcare, will be a significant driver for the growth of WebMD s private portals during the next several years. In addition, as described in more detail below, we believe that there are benefits to employers and health plans, regardless of health plan design considerations, in making the WebMD Health and Benefits Manager services available to their employees and members, including reduced benefits administration costs, communication and customer service costs, as well as more efficient coordination of messaging through the use of integrated employee or member profiles, and an increase in appropriate utilization of third-party services like disease management or pharmacy benefit management.

Membership for each of our private portals is limited to the employees (and their dependants) and the members of the respective employer and health plan clients. Each member must initially register on the private portal provided to them, at which point they are given a unique user identification name and passcode that they must utilize to achieve a secure sign-on each time they enter the private portal.

The WebMD Health and Benefits Manager. WebMD provide proprietary health and benefit management services through private online portals that we host for employers and health plan sponsors. WebMD s Health and Benefits Manager private portals provide a personalized user experience by integrating individual user data (including personal health information) and plan-specific data from WebMD s employer or health plan client, with much of the content, decision-support technology and personal communication services we make available through WebMD s public portals. WebMD s applications are typically accessed through a client s Web site or intranet and provide secure access for employees and plan members. WebMD also offers a software platform that allows it to integrate third-party applications and data. The portal is presented to each employee or health plan member as a personal home page, with direct access to relevant content, tools and other resources specific to the individual s eligibility, coverage and health profile. The WebMD Health and Benefits Manager provides a user-friendly experience that enables the employee or member to access and manage the individually tailored health and benefits information and decision-support technology in one place, with a common look and feel, and with a single sign-on. The components of the WebMD Health and Benefits Manager include:

WebMD Personal Health Manager. WebMD Personal Health Manager includes health risk assessment tools, an electronic personal health record and a suite of treatment decision-support applications. These services enable employees and plan members to assess their overall health risks, understand their risks with regard to specific conditions and store this information as well as other medical data, including medication and treatment history, in an electronic health record. WebMD s services enable employees and plan members to receive targeted information, programs or messages specific to the individual employee s or plan member s needs, based upon the information they store in their master profile.

WebMD Benefit Manager. WebMD Benefit Manager is a set of benefit decision-support applications that explain and provide comparisons of health plan benefit choices, facilitating informed selection and use of the employee s benefit options. For example, CostCompare allows an employee to forecast and model individual premium and out-of-pocket costs for the different types of benefit programs the plan sponsor may offer. A newly developed product, The Cost Estimator, will provide a resource for consumers to estimate the total

treatment costs of over 300 procedures, interventions or tests.

WebMD Provider Decision-Support. As a result of our acquisitions of HealthShare Technology, Inc. in March 2005 and Subimo, LLC in December 2006, WebMD offers as either part of our platform or as

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point solutions, tools that enable employees and health plan members to compare relative cost and quality measures of hospitals in order to select the hospital they believe is most suited to their individual needs. These comparisons are based on evidence-based measures, such as volume of patients treated for particular illnesses or procedures, mortality rates, unfavorable outcomes for specific problems, average number of days patients stayed in hospitals and average hospital treatment charges. The *WebMD Provider Decision-Support* tools also assist employees and members in selecting insurance coverage, tax preferred accounts funding, drugs and physicians.

WebMD Integration Services. WebMD offers a set of sophisticated integration services that facilitates access from the WebMD Health and Benefits Manager to third-party Web sites. This functionality allows employers and health plans to present their benefit programs within a single, unified interface, enabling end-users to access third-party Web sites without leaving our secure portals. Users of WebMD s application integration services are able to, among other things, view medical claims at their health plan sites, re-order medication from a pharmacy site and import medical, pharmacy and lab claims data. In addition, WebMD s Data Interchange services import data from medical, pharmacy and lab claims information into the WebMD Health and Benefits Manager enhancing our benefit decision support capabilities.

WebMD Site Manager. WebMD Site Manager is an online service and administrative suite of applications that enables WebMD s clients to manage many of the WebMD Health and Benefits Manager functions locally without assistance from WebMD staff. With Site Manager, employers and health plans are able to analyze aggregate health data, address population health risks more effectively and proactively implement preventive programs. Site Manager s messaging capabilities also allow employers to streamline their communication with their employees.

We believe that WebMD s services provide the following potential benefits to an employer or health plan:

reduced benefits administration, communication, and customer service costs;

more efficient coordination of messaging through the use of integrated member profiles;

increased tax savings through increased employee participation in Flexible Spending Accounts or HSAs;

reduced hospital, physician and drug costs through more informed utilization of the benefit plan;

increased enrollment in health management programs including disease management or health coaching;

increased member satisfaction with the employer and the benefit plan;

increased conformance with benefit plan and clinical protocols; and

enhanced health risk stratification that assists employers and health plans in selecting health management programs that are appropriate to the needs of their unique populations.

In addition, we believe that WebMD s services provide the following potential benefits to employees or plan members:

increased tax savings through increased participation in Flexible Spending Accounts;

reduced benefit costs through more informed choice of benefit plan options and more informed use of the chosen benefit plan;

improved health outcomes through more informed choice of providers and treatment choices; and

improved understanding and management of health conditions through access to support tools and educational information.

Personal Health Record Study for CMS. Our ViPS segment, as prime contractor, partnered with WebMD during 2006 on a study for The Centers for Medicare and Medicaid Services (CMS) testing the

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feasibility of using Medicare data within personal health records. The study focused on such critical factors as how to populate and test the viability of personal health records with Medicare fee-for-service eligibility and claims data. As future opportunities arise in this critical area of consumer-driven healthcare, we believe that WebMD s experience in deployment of a personal health record, together with ViPS expertise in healthcare data management, positions them well to compete for additional related projects.

Relationships with Private Portal Licensees

WebMD generates revenue from its private portals through licensing content and technology to employers and to health plans either directly or through our distributors. Companies utilizing WebMD s private portal applications include: employers, such as American Airlines, Inc., Microsoft Corporation, PepsiCo, Inc., International Business Machines Corporation, Metropolitan Life Insurance Company, Verizon Services Corp., Honda of America, The Kroger Co., J.C. Penney Corporation, Inc., Electronic Data Systems Corporation, Medtronics, and EMC Corporation; and health plans, such as Blue Cross Blue Shield of Alabama, HealthNet, ConnecticutCare, Pacific Source Health Plans, Cigna, Empire Blue Cross and Blue Shield and Horizon Blue Cross and Blue Shield. In addition, WebMD has entered into a multi-year agreement to license its online health and benefits platform to Wellpoint, Inc., the largest publicly traded commercial health and benefits company in terms of membership. Under this agreement, Wellpoint is integrating our private portal services into its member portals.

A typical contract for a private portal license provides for a multi-year term. The pricing of these contracts is generally based on several factors, including the complexity involved in installing and integrating our private portal platform, the number of private portal tools and applications, the services being provided, the degree of customization of the services involved and the anticipated number of employees or members covered by such license. WebMD s private portals are not part of *The WebMD Health Network* and do not involve advertising or sponsorship by third parties; we do not include private portal users or page views when we measure *The WebMD Health Network s* traffic volume.

Relationship with Fidelity Human Resources Services Company LLC

In February 2004, WebMD entered into a relationship with Fidelity Human Resources Services Company LLC, or FHRS, a provider of human resources and benefits outsourcing administration services. Pursuant to the agreement, FHRS serves as a distributor of WebMD s private portal services, and in connection therewith, FHRS integrates WebMD s products with FHRS s products to offer employer customers of FHRS an integrated solution through FHRS s NetBenefits® Web site. FHRS s integrated solutions provide employees with employer-provided health plan information and WebMD s personal health management tools allow employees to access a personalized view of their healthcare options so that they can make more informed healthcare decisions.

In May 2006, WebMD expanded its agreement with FHRS to integrate WebMD s online healthcare cost planning tools with FHRS s 401(k) savings, pension and retirement accounts.

Pursuant to the agreement, WebMD has agreed to cooperate in marketing and selling to clients that are purchasing FHRS s health and welfare benefits outsourcing services. For those clients, the NetBenefits site is marketed as the preferred delivery mechanism for the WebMD private portal applications. However, a client always retains the right to contract directly with WebMD, and WebMD is permitted to provide its services directly to a client if a client so requests. Under WebMD s agreement with FHRS, FHRS has retained the right to terminate the distribution of the WebMD private portal tools to an individual client at any time.

The May 2006 amendment also amended the initial term of the agreement through August 31, 2009, and FHRS has the right to renew the agreement for additional terms of one year after the initial term (not to exceed two (2) one-year renewal terms). FHRS has agreed to certain minimum levels of employees to be covered under the agreement. FHRS

is an affiliate of FMR Corp, which had beneficial ownership of approximately 10.8% of WebMD s Class A Common Stock at December 31, 2006, and approximately 13.0% of Emdeon s common stock at December 31, 2006.

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Acquisitions Included in Our Private Portals in 2006

Summex. On June 13, 2006, WebMD acquired Summex Corporation, a leading provider of comprehensive health and wellness programs that include online and offline health risk assessments, lifestyle education and personalized telephonic health coaching. The Summex services complement the online health and benefits platforms that WebMD provides to employers and health plans. Health coaches work one-on-one with employees and plan members to motivate participants to better manage their health conditions, practice prevention, pursue health conscious lifestyles, actively seek health and wellness knowledge and understand the financial and health impact of their lifestyle decisions.

Subimo. On December 15, 2006, WebMD acquired Subimo, LLC, a leading provider of online healthcare decision support applications to employers, health plans and financial institutions. As a result, WebMD now offers stand-alone modules, or point solutions, with limited cross-product integration, which allows for easier and faster implementations and lower costs to WebMD s customers.

Sales and Marketing

WebMD markets its private online portals to employers and health plans through a dedicated sales, marketing and account management team and through relationships with employee benefits consultants, distributors and other companies that assist employers in purchasing or managing employee benefits, including FHRS. See Relationship with Fidelity Human Resources Services Company LLC above for more information regarding WebMD s relationship with FHRS.

Technological Infrastructure

WebMD s Internet-based services are delivered through Web sites designed to address the healthcare information needs of consumers and healthcare professionals with easy-to-use interfaces, search functions and navigation capabilities. WebMD uses customized content management and publishing technology to develop, edit, publish, manage, and organize the content for our Web sites. WebMD uses ad-serving technology to store, manage and serve online advertisements in a contextually relevant manner to the extent possible. WebMD also uses specialized software for delivering personalized content through the WebMD Health and Benefits Manager and, for registered members, through WebMD s public Web sites. WebMD has invested and intends to continue to invest in software and systems that allow it to meet the demands of its users and sponsors.

Continued development of WebMD s technological infrastructure is critical to its success. WebMD s development teams work closely with marketing and account management employees to create content management capabilities, interactive tools and other applications for use across all of WebMD s portals. The goal of WebMD s current and planned investments is to further develop its content and technology platform serving various end-users, including consumers and physicians, and to create innovative services that provide value for healthcare advertisers, employers, payers, and other sponsors.

User Privacy and Trust

General. WebMD has adopted internal policies and practices relating to, among other things, content standards and user privacy, designed to foster our relationships with its users. Some of those policies are described below. In addition, WebMD participates in the following external, independent verification programs:

URAC. WebMD was awarded e-Health accreditation from URAC, an independent accrediting body that has reviewed and approved the *WebMD.com* site and the private portal deployment of *WebMD Personal Health Manager* for compliance with its more than 45 quality and ethics standards.

TRUSTe. WebMD is a licensee of the TRUSTe Privacy Program. TRUSTe is an independent, non-profit organization whose goal is to build users trust and confidence in the Internet. In January 2005, a panel of privacy experts, sponsored by TRUSTe, ranked WebMD among the ten most trusted companies in America for privacy based on the *WebMD.com* site and *WebMD Personal Health Manager*.

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Health on the Net Foundation. The *WebMD.com,* eMedicine.com, eMedicineHealth.com, *MedicineNet.com* and *Subimo.com* sites and *WebMD Personal Health Manager* comply with the principles of the HON Code of Conduct established by the Health on the Net Foundation.

Privacy Policies. WebMD understands how important the privacy of personal information is to its users. WebMD s Privacy Policies are posted on its Web sites and inform users regarding the information WebMD collect about them and about their use of WebMD s portals and services. WebMD s Privacy Policies also explain the choices users have about how their personal information is used and how WebMD protects that information.

Advertising and Promotion Policies. WebMD has sole discretion for determining the types of advertising that it accepts on its Web sites. All advertisements, sponsorships and promotions that appear on WebMD s Web sites must comply with its advertising and promotions policies. WebMD does not accept advertising that it has reason to believe is not factually accurate or is not in good taste. WebMD also recognizes and maintains a distinct separation between advertising content that appears on its Web sites and editorial content that it publishes. WebMD believes that it takes appropriate steps to ensure that its users can easily distinguish between sponsored content and news reporting and other editorial content.

Publishing and Other Services

WebMD s online publications for consumers, physicians and other healthcare professionals include:

The Little Blue Book. *The Little Blue Book* is a physician directory published annually in 146 distinct geographic editions, and contains practice information on an aggregate of more than 400,000 physicians. Physicians utilize *The Little Blue Book* for local and up-to-date physician, pharmacy and hospital contact information. Physicians are listed free of charge in their local area edition, along with their specialties, HMO affiliations, office addresses and telephone numbers. WebMD also uses the information used to produce *The Little Blue Book* to generate both online and offline directory and information products.

Reference Publications. WebMD publishes medical reference publications, including *ACP Medicine* and *ACS Surgery: Principles and Practice. ACP Medicine* and *ACS Surgery* are official publications of the American College of Physicians and the American College of Surgeons, respectively, although WebMD wholly owns the rights to each of these publications. They are available for sale by subscription to individual physicians and to institutions in multiple formats (print, CD-ROM and Online). *ACP Medicine* has been a comprehensive and regularly updated internal medicine reference for over 27 years.

WebMD the Magazine. WebMD launched *WebMD the Magazine* in April 2005 with an initial distribution of 1,000,000 copies. *WebMD the Magazine* is a full size, consumer publication delivered free of charge to approximately 85% of prescribing physicians offices in the United States. The editorial format of *WebMD the Magazine* is specifically designed for the physician s waiting room. Its editorial features and highly interactive format of assessments, quizzes and questions are designed to inform consumers about important health and wellness topics. Its distribution allows sponsors to extend the reach of their advertising and to deliver their message when consumers are actively engaged in the healthcare process, and allows WebMD to extend its brand into offline channels and attract incremental advertising dollars.

WebMD markets *The Little Blue Book* directly through WebMD Health sales persons, and markets *WebMD the Magazine* through a team of third-party marketers.

Competition

The markets that WebMD participates in are intensely competitive, continually evolving and may, in some cases, be subject to rapid change. Some of WebMD s competitors have greater financial, technical, marketing and other resources than it does and some are better known than it is. We cannot provide assurance that WebMD will be able to compete successfully against these organizations. WebMD also competes, in some cases, with joint ventures or other alliances formed by two or more of its competitors or by its competitors with other third parties.

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Public Portals

WebMD s public portals face competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. WebMD s public portals compete with online services and Web sites that provide health-related information, including both commercial sites and not-for-profit sites. These competitors include the health sub-channels of general purpose consumer Web sites, including yahoohealth.com, msnhealth.com, abouthealth.com and iVillage.com that provide 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. Our competitors also include numerous smaller, more specialized providers of online services, tools and applications for healthcare consumers. Competitors that provide services, tools and applications to physicians include merkmedicus.com, uptodate.com and mdconsult.com. Other competitors for advertising and sponsorship revenue include:

- publishers and distributors of traditional offline media, including television and magazines targeted to consumers, as well as print journals and other specialized media targeted to healthcare professionals, many of which have established or may establish their own Web sites or partner with other Web sites;
- offline medical conferences, CME programs and symposia;
- vendors of e-detailing services and the in-house detailing efforts of WebMD s clients; and
- vendors of healthcare information, products and services distributed through other means, including direct sales, mail and fax messaging.

Competitors for the attention of healthcare professionals and consumers include:

- the competitors for advertisers and sponsors described above; and
- public sector, non-profit and other Web sites that provide healthcare information without advertising or sponsorships from third parties, such as NIH.gov, CDC.gov, AHA.org, and ACS.org.

Since there are no substantial barriers to entry into the markets in which WebMD s public portals participate, we expect that additional competitors will continue to enter these markets.

Private Portals

WebMD s private portals compete with various providers and vendors in the licensing of content and in the sale of decision-support services and tools. WebMD s competitors in this market include:

- providers of decision-support tools, such as Hewitt Associates LLP;
- wellness and disease management vendors, including Mayo Foundation for Medical Education and Research, Staywell Productions/MediMedia USA, Inc. and Matria Healthcare;
- suppliers of online and offline health management applications, including HealthMedia, Health A-Z, a United Healthcare company, A.D.A.M Inc., Consumer Health Interactive and Harris HealthTrends (which is owned by Healthways, Inc.); and

health information services and health management offerings of health plans and their affiliates, including those of Humana, Aetna and United Healthcare.

Offline Publications

WebMD s offline publications compete with numerous other online and offline sources of healthcare information, including traditional medical reference publications, print journals and other specialized publications targeted to physicians, some of which have a more complete range of titles and better access to traditional distribution channels than WebMD s have.

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VIPS

Overview

ViPS provides healthcare data management, analytics, decision-support and process automation solutions and related information technology services to governmental, Blue Cross Blue Shield and commercial healthcare payers. ViPS solutions and services help its clients improve patient outcomes, increase customer satisfaction and reduce costs. ViPS two major business units are its Government Solutions Group and its Healthpayer Solutions Group, each of which is described below.

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 and business system integrators 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. Significant projects include:

ViPS Medicare System (VMS): This CMS system is used by the four Durable Medical Equipment Medicare Administrative Contractors to manage and process all claims for durable medical equipment, prosthetics, orthotics and supplies across the nation. ViPS was awarded this task order under the Professional Information Technology Services (PITS) contract vehicle.

Personal Health Record (PHR): This CMS study tested the feasibility of Medicare data and its use within PHRs. As prime contractor, ViPS partnered with WebMD on the study. It focused on such critical factors as how to populate and test the viability of personal health records with Medicare fee-for-service eligibility and claims data. As future opportunities arise in this critical area of consumer-driven healthcare, we believe ViPS expertise in healthcare data management positions it well to compete for additional related projects.

ViPS plays a key role in the Part D drug program and other initiatives in the Medicare Prescription Drug Improvement and Modernization Act (MMA). MMA, signed into law in December 2003, is the most significant change to Medicare since the program s founding in 1965. The new Medicare prescription drug benefit gives beneficiaries access to coverage under prescription drug insurance policies. ViPS is engaged as a prime contractor or subcontractor on several projects relating to the MMA, including the following:

Retiree Drug Subsidy (RDS) 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, has engaged Group Health Incorporated (GHI), Pinnacle Business Solutions and Northrop Grumman Corporation as subcontractors to engage in systems development for this project, as well as processing enrollment applications and payment requests, issuing payments and remittance advices to eligible employers, providing a call center, conducting outreach activities, performing fraud analysis and offering related training.

Drug Data Processing System. As the prime contractor on this project, ViPS is responsible for developing a system to receive, validate and store Medicare prescription drug event data related to the new Medicare prescription drug benefit. The resulting drug data warehouse is used to analyze program performance and

perform payment reconciliation. The scope of ViPS work was expanded in July 2005 to include development of a parallel solution using Teradata technology as the core platform for future CMS data warehouse solutions.

Customer Support for Medicare Modernization (CSMM). Under the CSMM project, ViPS is responsible for helping the various Part D Plans interface with CMS to provide the new Medicare prescription drug benefit. These activities include facilitating data center connectivity and access

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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. CMS has continued to extend the role of this Help Desk and in January 2007 approved an expanded task order for ViPS to provide Help Desk resources for support to the Enterprise Data Centers.

Centralized Medicare Beneficiary Eligibility Transaction System. This system gives healthcare providers and other submitters, network service providers and clearinghouses access to Medicare beneficiary eligibility information. As the prime contractor, ViPS is providing overall program management and conducting independent testing of the systems and subcontracting with EBS for help desk support and Northrop Grumman Corporation for IT security.

Medicare Beneficiary Database Suite of Systems. This system consists of a centralized repository for Medicare beneficiary entitlement, eligibility and demographic data that is critical to a host of dependent systems supporting the Medicare programs including the new Medicare prescription drug benefit. ViPS, working as a subcontractor to Northrop Grumman, designed, developed and continues to support this system.

Coordination of Benefits (COB). COB, as a key CMS function, includes an expanded scope to collect Part D COB data. The COB contract established, 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 Group Health Incorporated (GHI), developed, implemented and currently maintains the multiple subsystems that collectively are responsible for processing these COB functions.

National Provider Identifier (NPI) Crosswalk System. Prior to the implementation of the NPI, providers used any number of identifiers to submit claims, including identifiers for Part A, Part B and Durable Medical Equipment Resource Center systems, as well as identifiers for the National Council for Prescription Drug Programs and Unique Physician Identification Number, or UPIN. With CMS NPI initiative, these multiple identifiers were replaced with a single identifier, and healthcare providers are in the process of beginning to submit claims using their NPI rather than their legacy identifiers. In order to support the transition to NPIs, CMS required a system to map the legacy provider identifiers to the single NPI identifier. ViPS, partnered with Maricom Systems Incorporated, designed and implemented the mapping system and continues to support the NPI Crosswalk system. For additional information regarding implementation of the NPI, see Government Regulation Health Insurance Portability and Accountability Act of 1996 NPI Standard.

Medicare Secondary Payer Recovery Contractor (MSPRC). The MSPRC contract established, as a centralized operation under a single contractor, the performance of all Medicare secondary payer, or MSP, recovery activities. ViPS, as the technical partner to Chickasaw Nation Industries, currently maintains the multiple subsystems that collectively are responsible for processing the MSP recovery 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. However, ViPS faces significant competition in pursing these opportunities and there can be no assurance that existing projects will be renewed or that ViPS will be chosen for new projects. See Competition Government Solutions below.

HealthPayer Solutions

ViPS HealthPayer Solutions Group develops and markets software, data warehouses and tools for medical management, HEDIS® compliance reporting, physician performance measurement, healthcare fraud detection and

financial management, as well as components of proprietary data warehouse products, such as ViPS MCSource data model. Its products include:

*MCSource*tm. 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

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address critical issues such as medical cost and utilization, provider profiling, disease management, program evaluation, 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 Blue Cross Blue Shield Federal Employee Program (FEP), where it is used to manage a data warehouse covering approximately four million lives and five years of member data.

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

PrismMDtm. PrismMD is a business intelligence application with advanced capabilities and rich functionality for physician performance measurement that reports quality and efficiency metrics to support health plan administrators in managing multiple incentive programs. *PrismMD* also includes a sophisticated notification system to deliver feedback to physicians and health plan medical directors about physician practice, empowering them to make informed care decisions.

*STARSentinel*tm. STARSentinel is an early-warning detection business intelligence application 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 efficiently.

ViPS HealthPayer Solutions has also extended its traditional product and service line to include care analytics and components of proprietary data warehouse products, such as ViPS MCSource data model and related software tools and consulting services. In 2005, the Blue Cross Blue Shield Association, or BCBSA, selected ViPS, in partnership with Computer Sciences Corporation, to design, develop and implement Blue Health Intelligence®, or BHI, a multi-plan data warehouse based on ViPS proprietary MCSource data model. BHI will let participating Blue Cross Blue Shield Plans capture and access clinical data derived from patient care to enhance best practices, reduce costs and improve patient safety. Initially, ViPS expects the warehouse to store clinical records for 20 participating plans and approximately 79 million people. Expandable to house records for 100 million people, we believe this would be one of the largest data warehouses in the U.S. healthcare market.

Competition

Government Solutions

Competition to provide information technology services to CMS has, historically, come through a competitive bid contracting vehicle called Professional Information Technology Services (PITS). ViPS primary competitors are those companies that have won the right to vie for CMS contracts under the PITS contracting vehicle and include the following: Northrop Grumman Corporation; Computer Services Corporation; CGI Group, Inc./CGI-AMS; Raytheon Company; SRA International, Inc.; Accenture; and Electronic Data Systems, or EDS.

ViPS is currently in the process of responding to a Request for Proposals issued by CMS for a new indefinite delivery/indefinite quantity or IDIQ, performance-based-contracting vehicle named Enterprise Systems Development, or ESD, under which ViPS expects CMS to award four to six prime contracts to the bidders that are selected through the process. We understand that it is CMS intent to procure most, if not all, information technology development work

through this contract vehicle for approximately the next ten (10) years. Accordingly, there will be fewer companies awarded prime contracts, and those that are selected are likely to receive broader contracts than those made under the PITS contracting vehicle. If ViPS is not selected to be one of the four to six prime contractors under ESD, it will have only the more limited opportunity to pursue work under ESD as a subcontractor. There can be no assurance that ViPS will be

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awarded a prime contract under ESD or, if it is not awarded a prime contract, that opportunities as a subcontractor will be available or that ViPS will be selected as a subcontractor. As a result, if ViPS is not awarded a prime contract under ESD, its revenue from CMS programs could be significantly reduced.

In recent years, CMS has been required to increase the amount of business it does with small businesses. This trend is expected to continue and may decrease the amount of business that CMS does with ViPS.

HealthPayer Solutions

Key competitors to ViPS HealthPayer Solutions Group include: Ingenix, a wholly owned subsidiary of UnitedHealth Group; Milliman; McKesson Corporation; and Thomson Corporation/MedStat. ViPS seeks to differentiate its commercial products based on their degree of product interoperability and functionality.

POREX

Overview

Through Porex, we develop, manufacture and distribute proprietary porous plastic products and components used in healthcare, industrial and consumer applications. Porex also works with porous structures using other materials such as fiber and membranes. Our Porex customers include both end-users of its finished products as well as manufacturers that include our components in their products, which we refer to as original equipment manufacturers or OEMs.

Porex is an international business with manufacturing operations in North America, Europe and Asia. Porex s global sales and customer service network markets its products to customers in more than 65 countries.

In 2006, Porex derived approximately 50.5% of its revenues from the United States, approximately 34.2% from Europe, approximately 11.5% from Asia and approximately 3.8% from Canada and Latin America. In 2005, Porex derived approximately 52.2% of its revenues from the United States, approximately 33.2% from Europe, approximately 10.7% from Asia and approximately 3.9% from Canada and Latin America.

Porex Products

Porous Plastics. Porous plastics are permeable plastic structures having omni-directional (porous in all directions) inter-connecting pores to permit the flow of fluids and gases. These pores, depending upon the number and size, control the flow of liquids and gases. We manufacture porous plastics with pore sizes between approximately 1 and 500 micrometers. One micrometer is equal to one-millionth of a meter; an object of 40 micrometers in size is about as small as can be discerned by the naked eye. Our ability to control pore size provides the opportunity to serve numerous applications, including:

Filtering. In filtration applications, the pore structure acts as both a surface filter and a depth filter. The structure acts as a surface filter by trapping particles larger than its average pore size and as a depth filter by trapping much smaller particles deep in its complex channels. Unlike the direct passages in woven synthetic materials and metal screens, the pores in porous plastics join to form many tortuous paths. Examples of these applications include: filters for drinking water purification, air filters, fuel filters for power tools and appliances and other liquid filters for clarification of drugs, blood separation and chemicals.

Venting. In venting applications, the pore structure allows gases to easily escape while retaining fluids. Examples of these applications include: vents for medical devices, printers and automotive batteries; and caps and closures.

Wicking. When used as a wicking device, the pore structure creates capillary channels for liquid transfer allowing fluid to flow, or wick, from a reservoir. Examples of these applications include: nibs or tips for writing instruments, such as highlighters and coloring markers; fluid delivery components for printers and copiers; fragrance wicks; and absorbent media for diagnostic testing.

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Diffusing. When used in diffusion applications, porous plastic components emit a multitude of small, evenly distributed bubbles. Examples of these applications include air diffusers for fermentation, metal finishing and plating.

Muffling. In muffling applications, exhaust air is channeled through a tortuous path, causing significant sound reduction by breaking up and diffusing the sound waves. Examples of these applications include industrial mufflers for pneumatic equipment.

We produce porous plastic components and products in our own manufacturing facilities, which are equipped to manufacture products for our customers in custom-molded shapes, sheets, tubes or rods, depending on customer needs.

Other Porous Media. We believe that, in some applications, fiber and other porous membranes are preferred over our standard porous plastic materials. We use fiber technology for applications requiring high flow rates. Based on the same principles used in making our standard porous plastic products, fibers are thermally bonded into a matrix. This fiber material is well-suited for use in filtration and wicking applications, including our products for the consumer fragrance market. We also use sub-micron porous polytetrafluoroethylene, or PTFE, membranes to serve product markets where other porous plastics do not have the physical properties to meet application demands. PTFE material is commonly known as Teflon®.

Markets for Our Porous Plastic Products. Our porous plastic products are used in healthcare, consumer and industrial applications, including the following:

Healthcare Products. We manufacture a variety of porous plastic components for the healthcare industry that are incorporated into the products of other manufacturers. These components are used to vent or diffuse gases or fluids and are used as membrane supports, including catheter vents, self-sealing valves in surgical vacuum canisters, fluid filtration components and components for diagnostic devices.

Surgical Products. We also use proprietary porous plastic technology to produce MEDPOR® Biomaterial implantable products for use in reconstructive and aesthetic surgery of the head and face. These permanent implants, which are composed of biocompatible porous high-density plastics, are biomaterial alternatives for replacement or augmentation of bone and cartilage. Their unique porous structure allows for rapid in-growth of the patient s tissue and capillary blood vessels. Since the initial product introduction in 1985, we have continued to introduce new shapes and sizes of MEDPOR products to meet surgeons needs.

Consumer Products. Our porous plastics are used in a variety of office and home products. These products include writing instrument tips, or nibs, which we supply to manufacturers of highlighting pens and children s coloring markers. The porous nib conducts the ink stored in the pen barrel to the writing surface by capillary action. Our porous plastic components are also found in products such as air fresheners, power tool dust canisters and computer printers. We also produce a variety of porous plastic water filters used to improve the taste and safety of drinking water.

Industrial Products. We manufacture a variety of custom porous plastic components for industrial applications, designed to customer specifications as to size, rigidity, porosity and other needs, including automobile battery vents and various types of filters and filtration components.

Operating Room Products. We also produce two product lines for the operating room supplies market: surgical markers and surgical drainage systems.

Raw Materials

The principal raw materials used by Porex include a variety of plastic resins that are generally available from a number of suppliers. Many of Porex s products also 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

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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.

Marketing

Sales and marketing of our porous plastic products are conducted by a sales and marketing team of professionals with in-depth knowledge of plastic technologies. Marketing activities include advertising in various trade publications and directories and participating in tradeshows. Sales to OEM customers in the United States of our porous plastic products are made directly by our sales and marketing team. Internationally, these products are sold by our sales and marketing team and through independent distributors and agents.

We sell our MEDPOR Biomaterial products directly to medical centers, trauma centers, hospitals and private practice surgeons using independent and direct sales representatives. Internationally, these products are sold in over 40 countries through local distributors. We provide training, materials and other support to the sales representatives and distributors. Market awareness is primarily achieved through exhibitions in conjunction with medical specialty meetings, presentations by surgeons at medical meetings, journal publication of clinical papers, group sponsored visiting speaker programs and direct mail programs. Journal advertising is placed on a selected basis and we maintain an active database of contacts for targeted direct mail programs.

Competition

Porex operates in competitive markets and its products are, in general, used in applications that are affected by technological change and product obsolescence. The competitors for Porex s porous plastic products include other producers of porous plastic materials as well as companies that manufacture and sell products made from materials other than porous plastics that can be used for the same purposes as Porex s products. For example, Porex s porous plastic pen nibs compete with felt and fiber tips manufactured by a variety of suppliers worldwide. Other Porex porous plastic products compete, depending on the application, with membrane material, porous metals, metal screens, fiberglass tubes, pleated paper, resin-impregnated felt, ceramics and other substances and devices. Porex s competitors include, among others, Pall Corporation, Millipore Corporation, Filtrona plc, Genpore (a division of General Polymeric Corporation), Porvair plc and Whatman plc. The MEDPOR® Biomaterial implantable products compete for surgical use against autogenous and allograph materials and other alloplastic biomaterials. Porex s surgical drains and markers compete against a variety of products from several manufacturers.

Some of Porex s competitors may have greater financial, technical, product development, marketing and other resources than Porex does. In addition, some of Porex s competitors may have their manufacturing facilities located in, or may move them to, countries where manufacturing costs, including but not limited to labor and utility costs, are lower than those in the countries where Porex s facilities are located or may have other cost advantages not available to Porex. We cannot provide assurance that Porex will be able to compete successfully against these companies or against particular products and services they provide or may provide in the future.

Emdeon Business Services

Introduction

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. For healthcare payers, the administrative costs of supporting patient medical encounters include 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. EBS provides revenue cycle management solutions and electronic transaction services that help automate these processes.

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Description of Services and Customer Relationships

EBS s revenue cycle management solutions and electronic transaction services automate data exchange between healthcare providers and payers throughout the healthcare reimbursement cycle:

beginning with patient insurance eligibility and benefit verification,

continuing through the claim submission process and tracking the status of the claim,

followed by electronic remittance distribution and payment posting, and

concluding with balance billing the patient for non-covered charges.

EBS s services for payers also include: conversion of paper claims to electronic ones and related document management services; and paid claims communications services, including print-and-mail services for the distribution of checks, remittance advice and EOBs. EBS s services for providers also include print-and-mail services for patient billing statements, as well as related payment and communications services. In addition, EBS provides electronic clinical communications services that improve the delivery of healthcare by enabling physicians to manage laboratory orders and results, hospital reports and electronic prescriptions. EBS is 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.

EBS s healthcare provider customers include physician offices, dental offices, billing services, national laboratories, pharmacies and hospitals. EBS s healthcare payer customers include Medicare and Medicaid agencies, Blue Cross and Blue Shield organizations, pharmacy benefit management companies, commercial health insurance companies, third party administrators, preferred provider organizations and managed care companies. Customers access EBS s transaction 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. Healthcare providers access EBS s transaction services both directly and through their relationships with integrated delivery networks, clinics, physician, dental and pharmacy practice management system vendors, hospital information management system vendors, and retail pharmacy chains. Providers initiate transactions using EBS s proprietary transaction management applications, their practice management systems or other computer systems or networks.

EBS generates revenues by selling its 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. Transaction fees vary according to the type of transaction and other factors, such as volume level commitments. EBS may also charge one-time implementation fees to providers and payers. EBS also generates revenue by selling its document conversion, patient statement and paid-claims communication services, typically on a per document, per statement or per communication basis. In addition, EBS receives software license fees and software and hardware maintenance fees from healthcare payers who license our systems for converting paper claims into electronic ones.

Other Relationships

Relationships with Software Vendors and Other Service Providers. EBS works with numerous medical, dental and pharmacy practice management system vendors, hospital information system vendors and other service providers to

provide integrated transaction processing between their systems and EBS s. Most practice management and hospital information systems support, and can be integrated with, EBS s transaction services. Many practice management system vendors market a private label brand of EBS s transaction services that they have integrated with their systems. EBS pays sales commissions to some of these vendors in consideration for using EBS.

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Relationships with Other Clearinghouses. Some healthcare transaction clearinghouses also use EBS s services to transmit transactions to payers that they have received from healthcare providers. EBS pays sales commissions to some of these clearinghouses in consideration for using EBS to send the transactions submitted through their systems.

Competition

EBS has many competitors, including:

- healthcare transaction processing companies, including those providing electronic and/or Internet-based services and those providing services through other means, such as paper and fax;
- healthcare information technology system vendors;
- healthcare information technology consulting service providers; and
- health insurance companies, pharmacy benefit management companies and pharmacies that provide electronic transaction services for use by healthcare providers and/or by their members and customers.

In addition, certain financial services companies are making substantial investments in businesses relating to healthcare payment processes that compete or could compete with existing or planned services of EBS. EBS also competes, in some cases, with alliances formed by the above competitors. In addition, major software, hardware, information systems and business process outsourcing companies, both with and without healthcare and financial services companies as their partners, offer or have announced their intention to offer services that are competitive with EBS s services. Key competitors for one or more of EBS s services include, among others: Availity, Computer Sciences Corp., Electronic Data Systems Corporation, First Consulting Group, Inc., Fiserve, IBM Corporation, Ingenix (a subsidiary of United Health Group), McKesson Corporation, Medavant Healthcare Solutions (formerly known as ProxyMed, Inc.), Pinnacle Corporation (a subsidiary of Arkansas Blue Cross and Blue Shield), RxHub, and SureScripts.

Some of EBS s existing payer and provider customers and some software vendors with which EBS does business also compete with EBS or plan to do so. 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 have a direct connection to the payer, bypassing third party service providers such as EBS. Any significant increase in the utilization of direct links between healthcare providers and payers could have a material adverse effect on EBS s business and results of operations.

EMPLOYEES

As of December 31, 2006, we had approximately 2,260 employees, of which approximately 1,025 are WebMD employees. As a result of the EBS Sale, employees of EBS are not included in this amount.

DEVELOPMENT AND ENGINEERING

We have developed internally and acquired through acquisitions our healthcare information services and our technology solutions products and services. Our development and engineering expense totaled $33.6 million in 2006, $35.7 million in 2005, $33.1 million in 2004.

The markets for some of our products and services are characterized by rapid change and technological advances. Our future success will depend, in part, upon our ability to enhance our existing products and services, to respond effectively to technological changes, and to introduce new and newly integrated applications and technologies that address the changing needs of our customers. Accordingly, we intend to continue to make investments in development and engineering and to recruit and hire experienced development personnel. However, we cannot provide assurance that we will be able to successfully complete the development of new products or services or of enhancements to existing products or services. Further, there can be no assurance that products or technologies developed by others will not adversely affect our competitive position or render our products, services or technologies noncompetitive or obsolete.

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INTELLECTUAL PROPERTY

We rely upon a combination of patent, trade secret, copyright and trademark laws, license agreements, confidentiality procedures, employee and client nondisclosure agreements and technical measures to protect the intellectual property used in our businesses.

We use numerous trademarks, trade names and service marks for our products and services, including those listed below the Table of Contents of this Annual Report. We also use numerous other registered and unregistered trademarks and service marks for our various products and services. In addition to our trademark registrations and applications, WebMD has registered numerous domain names, including webmd.com, my.webmd.com and medscape.com and the other domain names listed in this Annual Report. Our inability to protect our marks and domain names adequately could have a material adverse effect on our business and hurt us in establishing and maintaining our brands.

We also rely on a variety of intellectual property rights that we license from third parties, including WebMD s Internet server software and healthcare content used on WebMD s Web sites. These third-party licenses may not continue to be available to us on commercially reasonable terms. Our loss of or inability to maintain or obtain upgrades to any of these licenses could significantly harm us. In addition, because we license content from third parties, we may be exposed to copyright infringement actions if these parties are subject to claims regarding the origin and ownership of that content.

The steps we have taken to protect our proprietary rights may not be adequate, and we may not be able to secure trademark or service mark registrations for marks in the United States or in foreign countries. Third parties may infringe upon or misappropriate our patents, copyrights, trademarks, service marks and similar proprietary rights. In addition, effective copyright and trademark protection may be unavailable or limited in many foreign countries, and the global nature of the Internet makes it impossible to control the ultimate destination of our services. It is possible that competitors or others will adopt product or service names similar to our names, which could impede our efforts to build brand identity and possibly lead to customer confusion. Moreover, because domain names derive value from the individual s ability to remember such names, our domain name will lose its value if, for example, users begin to rely on mechanisms other than domain names to access online resources. Our inability to protect our marks and domain names adequately would hurt our ability to establish and maintain our brands. In the future, litigation may be necessary to enforce and protect our trade secrets, copyrights and other intellectual property rights. Litigation would divert management resources and be expensive and may not effectively protect our intellectual property.

Substantial litigation regarding intellectual property rights exists in the software, information technology and Internet industries, and we expect that software, information technology and Internet products and services may be increasingly subject to third party infringement claims as the number of competitors in those industries grows and the functionality of products and services overlap. Although we believe that our products and services do not infringe on the intellectual property rights of others, we cannot provide assurance that such a claim will not be asserted against us in the future, or that a license or similar agreement will be available on reasonable terms in the event of an unfavorable ruling on any such claim.

We have several patents covering applications. Due to the nature of our applications, we believe that patent protection is less significant than our ability to further develop, enhance and modify our current services and products. However, any infringement or misappropriation of our proprietary applications could disadvantage us in our efforts to attract and retain customers in a highly competitive market and could cause us to lose revenue or incur substantial litigation expense. Moreover, in recent years, there has been a large number of patents issued in general and numerous patents issued related to Internet business methods. While we are unaware of any patent the loss of which would impact our

ability to conduct our business, defense of a patent infringement claim against us could divert management and monetary resources, and an adverse judgment in any such matter may negatively impact our ability to conduct our business in the manner we desire.

Porex relies upon a combination of patent and trade secret laws, license agreements, confidentiality procedures, employee and client nondisclosure agreements and technical measures in its efforts to protect its

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intellectual property and proprietary rights. For example, Porex seeks to protect its proprietary manufacturing technology by designing and fabricating its own manufacturing equipment and molds. In addition, in some cases, Porex has patented specific products and processes and intends to do so in some instances in the future. The majority of Porex s patents relate to porous plastics and medical devices and medical device components. Porex seeks to take appropriate steps to protect its intellectual property and proprietary rights and intends to defend those rights as may be necessary. However, we cannot provide assurance that the steps it has taken to protect these rights are adequate. Porex is currently involved in litigation to enforce and protect some of those rights. See Legal Proceedings *Porex Corporation v. Kleanthis Dean Haldopoulos, Benjamin T. Hirokawa and Micropore Plastics, Inc.* In the future, additional litigation may be necessary to enforce and protect those rights. Litigation to enforce and protect intellectual property and proprietary rights may divert management resources, may be expensive and may not effectively protect those rights.

GOVERNMENT REGULATION

Introduction

General. This section of the Annual Report contains a description of laws and regulations applicable to the operations of WebMD, ViPS, Porex and EBS, either directly or through their effect on their healthcare industry customers. Existing and new laws and regulations affecting the healthcare, information technology, Internet and plastic industries could create unexpected liabilities for WebMD, ViPS, Porex and EBS, could cause those businesses to incur additional costs and could restrict their operations. Many of the laws that affect the operations of those businesses, and particularly laws applying to healthcare, are very complex and may be subject to varying interpretations by courts and other governmental authorities. We cannot provide assurance that WebMD, ViPS, Porex or EBS will be able to accurately anticipate the application of these laws and regulations to their operations.

Healthcare Regulation. Much of Emdeon s revenue and almost all of EBS s revenue is either from the healthcare industry or could be affected by changes affecting healthcare spending. The healthcare industry is highly regulated and is subject to changing political, regulatory and other influences. These factors affect the purchasing practices and operations of healthcare organizations as well as the behavior and attitudes of consumers. Federal and state legislatures and agencies periodically consider programs to reform or revise aspects of the United States healthcare system. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in our products and services. We are unable to predict future proposals with any certainty or to predict the effect they would have on WebMD, ViPS, Porex or EBS.

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 WebMD, ViPS and EBS provide. However, these laws and regulations may nonetheless be applied to their products and services. Their failure to accurately anticipate the application of these laws and regulations to their businesses, or other failure to comply, could create liability for them, result in adverse publicity and negatively affect their businesses.

Other Regulation. This section of the Annual Report also contains a description of other laws and regulations, including general consumer protection laws and Internet-related laws, that may affect WebMD s operations and, to a lesser extent, EBS s operations. Laws and regulations have been adopted, and may be adopted in the future, that address Internet-related issues, including online content, privacy, online marketing, unsolicited commercial email, taxation, pricing, and quality of products and services. Some of these laws and regulations, particularly those that relate specifically to the Internet, were adopted relatively recently and their scope and application may still be subject

to uncertainties. Interpretations of these laws, as well as any new or revised law or regulation, could decrease demand for WebMD s and EBS s services, increase their cost of doing business, or otherwise cause their businesses to suffer.

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Regulation of Drug and Medical Device Advertising and Promotion

Advertising and sponsorship clients of WebMD, and in some respects WebMD itself, are required to comply with the regulations relating to drug and medical device advertising and promotion described below. In addition, advertising or promotion by Porex of its medical device products is also subject to some of those regulations.

The Food and Drug Administration, or FDA, and the Federal Trade Commission, or FTC, regulate the form, content and dissemination of labeling, advertising and promotional materials, including direct-to- consumer (or DTC) prescription drug and medical device advertising, prepared by, or for, pharmaceutical or medical device companies. The FTC regulates over-the-counter drug advertising and, in some cases, medical device advertising. Generally, based on FDA requirements, regulated companies must limit advertising and promotional materials to discussions of FDA-approved uses and claims. In limited circumstances, regulated companies may disseminate certain non-promotional scientific information regarding product uses or claims not yet approved by the FDA.

Information that promotes the use of pharmaceutical products or medical devices that is put on WebMD s Web sites is subject to the full array of FDA and FTC requirements and enforcement actions and information regarding other products and services is subject to FTC requirements. Areas of WebMD s Web sites that could be the primary focus of the FDA and the FTC include pages and programs that discuss use of an FDA-regulated product or that the regulators believe may lack editorial independence from the influence of sponsoring pharmaceutical or medical device companies. Television broadcast advertisements by WebMD may also be subject to FTC regulation and FDA regulation, depending on the content. The FDA and the FTC place the principal burden of compliance with advertising and promotional regulations on advertisers and sponsors to make truthful, substantiated claims. If the FDA or the FTC finds that any information on our Web site violates FDA or FTC regulations or guidance, they may take regulatory or judicial action against us or the advertiser or sponsor of that information. State attorneys general may also take similar action based on their state s consumer protection statutes.

Drug Advertising. The Federal Food, Drug and Cosmetic Act, or the FDC Act, requires that prescription drugs (including biological products) be approved for a specific medical indication by the FDA prior to marketing. It is a violation of the FDC Act and of FDA regulations to market, advertise or otherwise commercialize such products prior to approval. The FDA does allow for preapproval exchange of scientific information, provided it is non-promotional in nature and does not draw conclusions regarding the ultimate safety or effectiveness of the unapproved drug. Upon approval, the FDA s regulatory authority extends to the labeling and advertising of prescription drugs offered in interstate commerce. Such products may be promoted and advertised only for approved indications. In addition, the labeling and advertising can be neither false nor misleading, and must present all material information, including risk information, in a balanced manner. There are also requirements for certain information (the package insert for promotional labeling and the brief summary for advertising) to be part of labeling and advertising. Labeling and advertising that violate these legal standards are subject to FDA enforcement action.

The FDA also regulates the safety, effectiveness, and labeling of over-the-counter drugs, or OTC drugs, under the FDC Act, either through specific product approvals or through regulations that define approved claims for specific categories of such products. The FTC regulates the advertising of OTC drugs under the section of the Federal Trade Commission Act that prohibits unfair or deceptive trade practices. Together, the FDA and FTC regulatory framework requires that OTC drugs be formulated and labeled in accordance with FDA approvals or regulations and promoted in a manner that is truthful, adequately substantiated, and consistent with the labeled uses. OTC drugs that do not meet these requirements are subject to FDA or FTC enforcement action depending on the nature of the violation. In addition, state attorneys general may also bring enforcement actions for alleged unfair or deceptive advertising.

There are several administrative, civil and criminal sanctions available to the FDA for violations of the FDC Act or FDA regulations as they relate to labeling and advertising. Administrative sanctions may include a written request that violative advertising or promotion cease and/or that corrective action be taken, such as requiring a company to provide to healthcare providers and/or consumers information to correct misinformation previously conveyed. In addition, the FDA may use publicity, such as press releases, to warn

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the public about false and misleading information concerning a drug or medical device product. More serious civil sanctions include seizures, injunctions and consent decrees. Such measures could prevent a company from introducing or maintaining its product in the marketplace. Criminal penalties for severe violations can result in a prison term and/or substantial fines. State attorneys general have similar investigative tools and sanctions available to them as well. The National Association of Attorneys General has formed a Prescription Drug Task Force that has been active in addressing issues related to prescription drugs.

Any increase in FDA regulation of the Internet or other media for DTC advertisements of prescription drugs could make it more difficult for WebMD to obtain advertising and sponsorship revenue. In the last 15 years, the FDA has gradually relaxed its formerly restrictive policies on DTC advertising of prescription drugs. Companies may now advertise prescription drugs to consumers in any medium, provided that they satisfy FDA requirements. However, legislators, physician groups and others have criticized the FDA s current policies, and have called for restrictions on advertising of prescription drugs to consumers and increased FDA enforcement. These critics point to both public health concerns and to the laws of many other countries that make DTC advertising of prescription drugs a criminal offense. Scrutiny of DTC advertising increased after Vioxx® was withdrawn from the market due to potential safety concerns in September 2004. Industry trade groups, such as the Pharmaceuticals Research and Manufacturers of America, have implemented voluntary guidelines for DTC advertising in response to public concerns. The FDA has been actively considering revisions to its DTC advertising policy. In November 2005, it hosted a two-day public meeting to solicit input on the impact of DTC advertising on the public health and, as recently as January 2006, announced that it will propose a study on the impact of price incentives, such as coupons, in DTC advertising. In January 2007, the FDA published a report announcing the formation of a new advisory committee of experts and consumer representatives that will monitor the FDA s policies for risk communication. Intended to improve communication to patients of important safety information about drug products, the advisory committee may become a forum for addressing concerns about DTC advertising. Congress has also shown interest in the issue. Despite recent industry efforts to address the issue, there is a reasonable possibility that Congress, the FDA or the FTC may alter present policies on the DTC advertising of prescription drugs or medical devices in a material way. We cannot predict what effect any such changes would have on our business.

Continuing Medical Education. Activities and information provided in the context of a medical or scientific educational program, often referred to as continuing medical education or CME, usually are treated as non-promotional and fall outside the FDA s jurisdiction. The FDA does, however, evaluate such CME activities to determine whether they are independent of the promotional influence of the drug or medical device sponsor and whether they are promotional activities subject to the FDA s advertising and labeling requirements. To determine whether a company s activities are sufficiently independent, the FDA looks at a number of factors related to the planning, content, speakers and audience selection of such activities. To the extent that the FDA concludes that such activities are not independent of a manufacturer, such content must fully comply with the FDA s requirements and restrictions regarding promotional activities. If any CME activity we provide is considered promotional, we may face regulatory action or the loss of accreditation by the Accreditation Council for Continuing Medical Education (or ACCME), which oversees providers of CME credit.

WebMD s CME activities are planned and implemented in accordance with the Essential Areas and Policies of ACCME 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 WebMD s CME programs. We believe that WebMD has modified its procedures as appropriate to meet the revised standards. However, we cannot be certain whether these adjustments will ensure that WebMD meets 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

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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 to maintain WebMD s 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 WebMD s business.

During the past several years, educational programs directed toward physicians, including CME, have been subject to increased governmental scrutiny to ensure that sponsors do not influence or control the content of the program or otherwise use such programs for improper purposes. For example, as part of an ongoing investigation of the sponsorship of CME activities, the U.S. Senate Finance Committee has been examining the role of the ACCME. The Committee has inquired regarding, among other things, how ACCME ensures that its guidelines are followed and CME activities are independent of influence from sponsors. Additionally, in response to governmental and industry initiatives, pharmaceutical companies have been developing and implementing internal controls and procedures that promote adherence to applicable guidelines, regulations and requirements. In implementing these controls and procedures, different clients of WebMD may interpret the regulations and requirements differently and may implement procedures or requirements that vary from client to client. These controls and procedures may negatively impact the volume and types of CME services that WebMD offers by:

discouraging pharmaceutical companies from engaging in educational activities;

slowing their internal approval for educational programs; and

requiring WebMD to make changes in how it offers or provides educational programs.

In addition, future changes to existing regulations or accreditation standards, or to the internal compliance programs of potential clients, may further discourage, significantly limit, 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.

Medical Professional Regulation

The practice of most healthcare professions requires licensing under applicable state law. In addition, the laws in some states prohibit business entities from practicing medicine, which is referred to as the prohibition against the corporate practice of medicine. WebMD does not believe that it engages in the practice of medicine and it has attempted to structure its Web site and other operations to avoid violating these state licensing and professional practice laws. WebMD does not believe that it provides professional medical advice, diagnosis or treatment. WebMD employs and contracts with physicians who provide only medical information to consumers, and it has no intention to provide medical care or advice. A state, however, may determine that some portion of WebMD s business violates these laws and may seek to have it discontinue those portions or subject us to penalties or licensure requirements. Any determination that WebMD is a healthcare provider and acted improperly as a healthcare provider may result in liability to it.

Consumer Protection Regulation

General. Advertising and promotional activities presented to visitors on WebMD s Web sites are subject to federal and state consumer protection laws that regulate unfair and deceptive practices. WebMD is also subject to various other federal and state consumer protection laws, including the ones described below.

CAN-SPAM Act. On January 1, 2004, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, became effective. The CAN-SPAM Act regulates commercial emails, provides a right on the part of the recipient to request the sender to stop sending messages, and establishes penalties for the sending of email messages that are intended to deceive the recipient as to source or content. Under the CAN-SPAM Act, senders of commercial emails (and other persons who initiate those emails) are required to make sure that those emails do not contain false or misleading transmission information. Commercial emails are required to include a valid return email address and other subject heading information so that the sender and the Internet location from which the message has been sent are accurately

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identified. Recipients must be furnished with an electronic method of informing the sender of the recipient s decision to not receive further commercial emails. In addition, the email must include a postal address of the sender and notice that the email is an advertisement. The CAN-SPAM Act may apply to the e-newsletters that WebMD s public portals distribute to members and to some of our other commercial email communications. However, there may be additional FTC regulations indicating that our e-newsletters are outside the scope of the CAN-SPAM Act. At this time, WebMD is applying the CAN-SPAM requirements to these email communications, and believes that its email practices comply with the requirements of the CAN-SPAM Act. Many states have also enacted anti-spam laws. The CAN-SPAM Act preempts many of these statutes. To the extent these laws are not preempted, we believe that our email practices comply with these laws.

Regulation of Advertisements Sent by Fax. Section 227 of the Communications Act, which codifies the provisions of the Telephone Consumer Protection Act of 1991 (or TCPA), prohibits the transmission of an unsolicited advertisement via facsimile to a third party without the consent of that third party. An unsolicited advertisement is defined broadly to include any material advertising the commercial availability or quality of any property, goods or services. In 2005, the Junk Fax Prevention Act (or JFPA) was signed into law, which codified a previous interpretation of the TCPA by the Federal Communications Commission (or FCC) that a commercial fax is not unsolicited if the transmitting entity has an established business relationship, as defined by the JFPA and applicable FCC regulations, with the recipient.

On April 5, 2006, the FCC issued its final rules under the JFPA. The rules became effective on August 1, 2006. In the rules, the FCC confirmed that transactional faxes are permitted. It defined a transactional fax as one that facilitates, completes or confirms the commercial transaction that the recipient has previously agreed to enter into with the sender. The FCC stated that these faxes are not advertisements that are prohibited by the TCPA. The FCC recognized that, if a transactional fax has a de minimis amount of advertising information on it, that alone does not convert a transactional fax into an unsolicited advertisement.

In addressing the so-called EBR exemption to the TCPA s prohibition on unsolicited facsimile advertisements, the FCC adopted the JFPA s definition of an established business relationship or EBR, which includes a voluntary two-way communication between a person and a business. The FCC rules make clear that, if the person made an inquiry or application to a sender, it must be about a product or service offered by the entity for it to qualify as an EBR. The FCC rules also do not prohibit faxed communications that contain only information, such as news articles, updates or other similar general information.

States from time to time have enacted, or have attempted to enact, their own requirements pertaining to the transmission of commercial faxes. These state requirements often, but not always, track the terms of the TCPA, the JFPA, and the FCC s regulations. To the extent state commercial fax requirements have conflicted with federal requirements, they have to date been successfully challenged. We cannot predict the outcome of the FCC s future rulemaking proceedings, the extent to which states may successfully enact more restrictive commercial fax laws in the future, or the outcomes of any judicial challenges to those laws.

WebMD transmits commercial faxes to physician office practices in connection with its *Little Blue Book* business, and intends to comply with all applicable federal and state requirements governing the transmission of such faxes.

COPPA. The Children s Online Privacy Protection Act, or COPPA, applies to operators of commercial Web sites and online services directed to U.S. children under the age of 13 that collect personal information from children, and to operators of general audience sites with actual knowledge that they are collecting information from U.S. children under the age of 13. WebMD s sites are not directed at children and its general audience site, *WebMD Health,* states that no one under the applicable age is entitled to use the site. In addition, WebMD employs a kick-out procedure whereby users identifying themselves as being under the age of 13 during the registration process are not allowed to

register for the site s member only services, such as message boards and live chat events. COPPA, however, can be applied broadly and is subject to interpretation by courts and other governmental authorities. The failure to accurately anticipate the application or interpretation of this law could create liability for WebMD, result in adverse publicity and negatively affect WebMD s business.

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Regulation of Contests and Sweepstakes. WebMD conducts contests and sweepstakes in some of its marketing channels. The federal Deceptive Mail Prevention and Enforcement Act and some state prize, gift or sweepstakes statutes may apply to these promotions. WebMD believes that it is in compliance with any applicable law or regulation when it runs these promotions.

FACTA. In an effort to reduce the risk of identity theft from the improper disposal of consumer information, Congress recently passed the Fair and Accurate Credit Transactions Act (or FACTA), which requires businesses to take reasonable measures to prevent unauthorized access to such information. FACTA s disposal standards are flexible and allow businesses discretion in determining what measures are reasonable based upon the sensitivity of the information, the costs and benefits of different disposal methods and relevant changes in technology. WebMD, ViPS and EBS believe that, to the extent applicable to their businesses, they are in compliance with FACTA.

Data Protection Regulation. With the recent increase in publicity regarding data breaches resulting in improper dissemination of consumer information, many states have passed laws regulating the actions that a business must take if it experiences a data breach, such as prompt disclosure to affected customers. Generally, these laws are limited to electronic data and make some exemptions for smaller breaches. Congress has also been considering similar federal legislation relating to data breaches. The FTC has also prosecuted some data breach cases as unfair and/or deceptive acts or practices under the Federal Trade Commission Act. We intend to continue to comprehensively protect all consumer data and to continue to comply with all applicable laws regarding the protection of this data.

Other Consumer Protection Regulation. The FTC and many state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. WebMD believes that it is in compliance with these consumer protection standards, but a determination by a state or federal agency or court that any of its practices do not meet these standards could result in liability and adversely affect its business. New interpretations of these standards could also require it to incur additional costs and restrict its business operations.

In addition, several foreign governments have regulations dealing with the collection and use of personal information obtained from their citizens. Those governments may attempt to apply such laws extraterritorially or through treaties or other arrangements with U.S. governmental entities. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to accurately anticipate the application or interpretation of these laws could create liability to us, result in adverse publicity and negatively affect our businesses.

Regulation of Healthcare Relationships

Anti-Kickback Laws. There are federal and state laws that govern patient referrals, physician financial relationships and inducements to healthcare providers and patients, which are sometimes referred to as Anti-Kickback Laws. The federal healthcare programs Anti-Kickback Law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Penalties for violating the federal Anti-Kickback Law include imprisonment, fines and exclusion from participating, directly or indirectly, in Medicare, Medicaid and other federal healthcare programs. Many states also have similar Anti-Kickback Laws that are not necessarily limited to items or services for which payment is made by a federal healthcare program.

These laws are applicable to manufacturers and distributors and, therefore, may restrict how we and some of our customers market products to healthcare providers. Also, in 2002, the Office of the Inspector General, or OIG, of the Department of Health and Human Services, or HHS, the federal government agency responsible

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for interpreting the federal Anti-Kickback Law, issued an advisory opinion that concluded that the sale of advertising and sponsorships to healthcare providers and vendors by Web-based information services, such as WebMD, implicates the federal Anti-Kickback Law. However, the advisory opinion suggests that enforcement action will not result if the fees paid represent fair market value for the advertising/sponsorship arrangements, the fees do not vary based on the volume or value of business generated by the advertising and the advertising/sponsorship relationships are clearly identified as such to users.

Also, on August 6, 2006, the OIG published a final rule that provides protection under the federal Anti-Kickback Law for (1) certain arrangements in which a physician receives necessary non-monetary remuneration used solely to receive and transmit electronic prescribing information (e-prescribing) and (2) certain arrangements involving the provision of interoperable electronic health records software and directly related training services. The e-prescribing portions of the final rules were mandated by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the MMA). As part of the MMA, Congress mandated the adoption of standards for e-prescribing, with the objective of improving patient safety, quality of care, and efficiency in the delivery of health care. The MMA directed the Secretary of HHS, in consultation with the U.S. Attorney General, to create a safe harbor to the Anti-Kickback Law to protect certain arrangements for the provision of non-monetary remuneration that is necessary and used solely to receive and transmit electronic prescription drug information in accordance with electronic standards published by the Secretary. In addition to the MMA-mandated Anti-Kickback Law safe harbor, The Centers for Medicare & Medicaid Services (CMS) and the OIG used their legal authority to create additional protections for certain arrangements involving the provision of interoperable electronic health records software and related training services. Although not yet finalized, the e-prescribing safe harbor may facilitate e-prescribing arrangements, since the provision to physicians by specified healthcare providers of certain technology for receiving and transmitting electronic drug information will not be subject to prosecution under the Anti-Kickback Law.

WebMD, ViPS, Porex and EBS review their practices with regulatory experts in an effort to comply with all applicable laws. However, the laws in this area are both broad and vague and it is often difficult or impossible to determine precisely how the laws will be applied, particularly to new services. Any determination by a state or federal regulatory agency that any of their practices violate any of these laws could subject them to civil or criminal penalties and require them to change or terminate some portions of their businesses. Even an unsuccessful challenge by regulatory authorities of their practices could cause them adverse publicity and be costly for them to respond to.

False Claims Laws. EBS provides transaction services to healthcare providers and, as a result, may be subject to state and federal laws that govern the submission of claims for medical expense reimbursement. These laws generally prohibit an individual or entity from knowingly presenting or causing to be presented a claim for payment from Medicare, Medicaid or other third-party payers that is false or fraudulent, or is for an item or service that was not provided as claimed. Some of these laws also provide civil and criminal penalties for noncompliance, and can be enforced by individuals through qui tam actions. We cannot guarantee that state and federal agencies will regard billing errors processed by EBS as inadvertent and not in violation of these laws. In addition, changes in these laws could also require EBS to incur costs or restrict its business operations. As part of EBS s data transmission and claims submission services, it may employ certain edits, using logic, mapping and defaults, when submitting claims to third-party payers. Such edits are utilized when the information received from providers is insufficient to complete individual data elements requested by payers. EBS believe its editing processes are consistent with industry practice. However, it is possible that a court or governmental agency might view such practices in a manner that could adversely affect EBS.

Regulation of Medical Devices

Overview. Porex manufactures and markets medical devices, such as reconstructive and aesthetic surgical implants and post-surgical drains, that are subject to extensive regulation by the FDA under the FDC Act. The FDA s

regulations govern, among other things, product development, testing, manufacturing, labeling, storage, premarket clearance (referred to as 510(k) clearance), premarket approval (referred to as PMA approval), advertising and promotion, and sales and distribution. If the FDA finds that Porex has failed to

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comply, the agency can institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions such as: fines, injunctions, and civil penalties; recall or seizure of Porex s products; issuance of public notices or warnings; operating restrictions, partial suspension or total shutdown of production; refusal of Porex s requests for 510(k) clearance or PMA approval of new products, withdrawal of 510(k) clearance or PMA approvals already granted, and criminal prosecution.

Access to U.S. Market. Each medical device that Porex wishes to commercially distribute in the U.S. will, unless exempt, likely require either 510(k) clearance or PMA approval (as more fully described below) from the FDA prior to commercial distribution. Devices deemed to pose relatively less risk are placed in either class I or II, which requires the manufacturer to submit a premarket notification requesting 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously 510(k) cleared device or to a preamendment class III device (in commercial distribution before May 28, 1976) for which PMA applications have not been called, are placed in class III requiring PMA approval. In some cases, Porex has made modifications to certain of its products that we believe do not require new 510(k) clearance. If the FDA disagrees with our decisions, it can retroactively require new 510(k) clearance or PMA approval. The FDA also can require Porex to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained.

510(k) Clearance Process. To obtain 510(k) clearance, Porex must submit a premarket notification demonstrating that the proposed device is substantially equivalent in intended use and in safety and effectiveness to a predicate device either a previously 510(k) cleared class I or class II device or a preamendment class III device for which the FDA has not called for PMA applications. The FDA s 510(k) clearance process usually takes from four to 12 months, but it can last longer. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could even require a PMA approval. The FDA requires that each manufacturer make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees with that decision, the agency may retroactively require the manufacturer to seek 510(k) clearance or PMA approval. The FDA also can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained.

PMA Approval Process. If a product is not eligible for 510(k) clearance, the product is placed in class III and must follow the PMA approval process, which requires proof of the safety and effectiveness of the device to the FDA s satisfaction. A PMA approval application must provide extensive preclinical and clinical trial data and also information about the device and its components regarding, among other things, device design, manufacturing and labeling. As part of the PMA approval application review, the FDA will inspect the manufacturer s facilities for compliance with the Quality System Regulation, which requires manufacturers to follow elaborate design, testing, control, documentation and other quality assurance procedures during the manufacturing process. The PMA approval pathway is costly, lengthy and uncertain. It generally takes from one to three years or longer. After approval of a PMA approval application, a new PMA approval or PMA supplement approval may be required in the event of a modification to the device, its labeling or its manufacturing process.

Clinical Studies. A clinical study is generally required to support a PMA approval application and is sometimes required for a 510(k) premarket notification. For significant risk devices, such studies generally require submission of an application for an Investigational Device Exemption, or IDE. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device on humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specified number of patients. Clinical studies may begin once the IDE application is approved by the FDA and the appropriate institutional review boards at the study sites. For nonsignificant risk

devices, one or more institutional review boards must review the study, but submission of an IDE application to the FDA for advance approval is not required. Both types of studies are subject to record keeping, reporting and other IDE regulation requirements.

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Post-market Regulation. After the FDA permits a device to enter commercial distribution, numerous regulatory requirements apply. These include the Quality System Regulation, labeling regulations, the FDA s general prohibition against promoting products for unapproved or off-label uses, and the Medical Device Reporting regulation, which requires that a manufacturer report to the FDA if its device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur. Because Porex s medical devices are in commercial distribution, Porex is subject to inspection and market surveillance by the FDA to determine compliance with all regulatory requirements. Compliance with these requirements can be costly and time-consuming. Porex s failure to comply could subject it to FDA enforcement action and sanctions.

International. Sales of medical devices outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Porex s medical device products may subject to premarket approval (or similar requirements) as well as other regulatory requirements in other countries in which they are sold. In most instances, Porex relies on its distributors to obtain such premarket approvals and to complete clinical trial and other requirements in those foreign countries that require them. Failure by Porex or its distributors to comply with applicable regulations in any jurisdiction in which Porex s medical device products are sold could subject Porex to enforcement action and sanctions.

Health Insurance Portability and Accountability Act of 1996

General. Under the Health Insurance Portability and Accountability Act of 1996, Congress mandated a package of interlocking administrative simplification rules to establish standards and requirements for the electronic transmission of certain health information. We refer to those regulations, together with the law itself, as HIPAA. Certain of EBS s businesses, including its clearinghouse operations, are covered entities under HIPAA, which means they are specifically subject to the applicable rules under HIPAA. Covered entities under HIPAA include health plans, healthcare clearinghouses and most healthcare providers. In addition, WebMD and ViPS are subject to certain provisions of HIPAA indirectly because they have clients that are covered entities, which makes WebMD and ViPS business associates of covered entities under HIPAA. A summary of key portions of HIPAA applicable to EBS follows, in which summary we have also noted the effect of certain of those provisions on WebMD and ViPS.

Transaction Standards. The Transaction Standards establish format and data content standards for the most common electronic healthcare transactions, using technical standards promulgated by recognized standards publishing organizations. These transactions include healthcare claims, enrollment, payment, and eligibility. The Transaction Standards were intended to make it easier for payers and providers to send and receive healthcare transactions electronically. The Transaction Standards are applicable to that portion of EBS s business involving the processing of healthcare transactions among physicians, payers, patients, and other healthcare industry participants. Failure to comply with the Transaction Standards may subject covered entities, including EBS, to civil monetary penalties and possibly to criminal penalties. CMS is responsible for enforcing the Transaction Standards.

Healthcare payers and providers who are unable to exchange data in the required standard formats can achieve Transaction Standards compliance by contracting with a clearinghouse, like EBS, to translate between standard and non-standard formats. As a result, use of a clearinghouse has allowed numerous providers and payers to move to the Transaction Standards independently and at different times, reducing transition costs and risks. In addition, the standardization of formats and data standards envisioned by the Transaction Standards has only partially occurred. Multiple versions of a HIPAA standard claim have emerged as each payer defines for itself what constitutes a HIPAA-compliant claim. Payers have published more than 600 different companion documents setting forth their individual interpretations and implementation of the government guidelines.

In order to help prevent disruptions in the healthcare payment system, CMS has permitted the use of contingency plans under which claims and other covered transactions can be processed, in some circumstances, in either HIPAA standard or legacy formats. The Medicare HIPAA incoming claim contingency plan was terminated in 2005. The Medicare contingency plan for HIPAA transactions other than claims

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remains in effect. The EBS contingency plan, pursuant to which it processes HIPAA standard transactions and legacy transactions, as appropriate, based on the needs of its business partners, remains in effect. We cannot provide assurance regarding how CMS will regulate clearinghouses in general or EBS in particular. EBS continues to work with payers, providers, practice management system vendors and other healthcare participants to implement the Transaction Standards.

As various healthcare entities are in different stages of migration to using HIPAA standard formats, EBS continues to translate claim information from non-standard to standard formats and vice versa. The Transaction Standards, however, require healthcare providers to collect and supply more information than they have in the past in order to submit a healthcare claim. A majority of the claims that EBS currently receives from submitters continue to use legacy formats and, of those claims submitted to EBS in HIPAA-standard formats, many do not contain the additional data content provided for in the Transaction Standards. Some providers who can submit claims in the HIPAA standard formats cannot yet collect all of the data payers may require to process the claim.

We believe that use of clearinghouses will continue to be the most efficient way for most providers to transact electronically with multiple payers. Nonetheless, the Transaction Standards may facilitate use of direct electronic data interchange (EDI) links for transmission of such transactions without a clearinghouse between some payers and providers. 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 EBS s 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 EBS is able to negotiate in its agreements with them, which could also have an adverse impact on EBS s business and on the financial results of EBSCo and the value of our investment in it.

NPI Standard. On January 23, 2004, HHS published the final HIPAA standard for a unique health identifier for healthcare providers, commonly referred to as the National Provider Identifier (NPI) Standard. The NPI Standard requires healthcare providers that transmit any health information in electronic form in connection with a HIPAA covered transaction to obtain a single, 10 position all-numeric NPI from the National Provider System, and to use the NPI in standard transactions where a provider identifier is required. Health plans and healthcare clearinghouses must use a provider s NPI to identify the provider on all standard transactions where that provider s identifier is required. Most participants in the healthcare industry are required to be in compliance with the NPI Standard by May 23, 2007. EBS has been and continues to remediate its systems to accommodate use of the NPI. Only a small percentage of transactions submitted to EBS, to date, have used the NPI. EBS cannot determine whether providers and payers will have taken the steps necessary for them to comply with the NPI Standard by May 23, 2007. Accordingly, the effect of the NPI Standard is difficult to predict and there can be no assurances that transactions and EBS revenue will not be adversely affected, that EBS will adequately address business risks created by the NPI rule and its implementation, or that EBS will be able to take advantage of business opportunities resulting from implementation of the NPI Standard.

Privacy Standards. The HIPAA Privacy Standards establish a set of basic national privacy standards for the protection of individually identifiable health information by covered entities and their business associates. The Privacy Standards require WebMD, ViPS and EBS (either directly, as a covered entity, or contractually as a business associate) and their customers (as covered entities) to comply with those standards, including by establishing policies and procedures to safeguard the information. As permitted by the Privacy Standards, some of our and EBS s businesses may use health information that has been de-identified. Although determining whether data has been sufficiently de-identified may require complex factual and statistical analyses and may be subject to interpretation, we believe that our and EBS s use of such information is in accordance with the Privacy Standards.

HIPAA includes civil and criminal penalties for covered entities that violate the Privacy Standards. In addition, depending upon the facts and circumstances, business associates could be subject to criminal liability for aiding and abetting, or conspiring with, a covered entity to violate the Privacy Standards. There can be no assurances that

WebMD, ViPS and EBS will adequately address the risks created by the Privacy Standards. In

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addition, we are unable to predict what changes to the Privacy Standards might be made in the future or how those changes could affect WebMD s, ViPS or EBS s businesses.

Security Standards. The HIPAA Security Standards establish detailed requirements for safeguarding patient information that is electronically transmitted or electronically stored. Some of the Security Standards are technical in nature, while others may be addressed through policies and procedures for using information systems. We believe that EBS s, ViPS and WebMD s infrastructure and processes are, to the extent required, in compliance with the Security Standards and/or contractual provisions relating to the Security Standards. However, we are unable to predict what changes might be made to the Security Standards in the future or how those changes might help or hinder our business.

Other Restrictions Regarding Confidentiality and Privacy of Health Information

In addition to HIPAA, numerous other state and federal laws govern the collection, dissemination, use, access to and confidentiality of patient health and prescriber information. In addition, some states are considering new laws and regulations that further protect the confidentiality and privacy of medical records or medical information. In many cases, these state laws are not preempted by the HIPAA Privacy Standards and may be subject to interpretation by various courts and other governmental authorities, thus creating potentially complex compliance issues for WebMD, ViPS and EBS and their customers and strategic partners. These laws at the state or federal level, or new interpretations of these laws, could create liability for WebMD, ViPS and EBS, could impose additional operational requirements on their businesses, could affect the manner in which they use and transmit patient information and could increase their cost of doing business. Claims of violations of privacy rights or contractual breaches, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

International Data Regulation

WebMD s public portals are not directed to non-U.S. users. Nearly all of the users of WebMD s private portals are U.S. employees or plan members. As a result, we do not believe that WebMD currently conducts its business in a manner that subjects it to international data regulation in any material respect. However, other countries have, or are developing, their own laws governing the collection, use, storage and dissemination of personal information or patient data. Those governments may attempt to apply such laws extraterritorially or through treaties or other arrangements with U.S. governmental entities. WebMD might unintentionally violate such laws, such laws may be modified, and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to accurately anticipate the application or interpretation of these laws could impose additional operational requirements or restrictions on WebMD s business, affect the manner in which WebMD uses or transmits data and increase WebMD s cost of doing business.

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Item 1A. ***Risk Factors***

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. We have also included a detailed discussion of risks and uncertainties arising from governmental regulation of our businesses, one of the most significant risks we face, in the section Business Governmental Regulation above. The risks and uncertainties described in this Annual 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.

Risks Related to WebMD

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 WebMD 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 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 its results of operations.

Developing and implementing new and updated applications, features and services for WebMD s public and private portals may be more difficult than expected, may take longer and cost more than expected and may not result in sufficient increases in revenue to justify the costs

Attracting and retaining users of WebMD s public portals and clients for its private portals requires WebMD to continue to improve the technology underlying those portals and to continue to develop new and updated applications, features and services for those portals. If WebMD is unable to do so on a timely basis or if WebMD is unable to implement new applications, features and services without disruption to its existing ones, it may lose potential users

and clients.

WebMD relies on a combination of internal development, strategic relationships, licensing and acquisitions to develop its portals and related applications, features and services. WebMD s development and/or implementation of new technologies, applications, features and services may cost more than expected, may take longer than originally expected, may require more testing than originally anticipated and may require the acquisition of additional personnel and other resources. There can be no assurance that the revenue

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opportunities from any new or updated technologies, applications, features or services will justify the amounts spent.

WebMD faces significant competition for its products and services

The markets in which WebMD operates are intensely competitive, continually evolving and, in some cases, subject to rapid change.

WebMD s public portals face competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. WebMD competes for users with online services and Web sites that provide health-related information, including commercial sites as well as public sector and not-for-profit sites. WebMD competes 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.

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.

WebMD s Publishing and Other Services segment s products and services compete with numerous other online and offline sources of healthcare information, including traditional medical reference publications, print journals and other specialized publications targeted to physicians, some of which have a more complete range of titles and better access to traditional distribution channels than WebMD has.

Many of WebMD s competitors have greater financial, technical, product development, marketing and other resources than it does. These organizations may be better known than WebMD is and have more customers or users than WebMD does. WebMD cannot provide assurance that it will be able to compete successfully against these organizations or any alliances they have formed or may form. 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.

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 our 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 brand. However, WebMD may not be able to successfully maintain or enhance awareness of its brands and circumstances or events, including ones outside of its control, may have a negative effect on its brands. If WebMD is unable to maintain or enhance awareness of its brand, and do so in a cost-effective manner, its business could be adversely affected.

WebMD s online businesses have a limited operating history

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 and changes in market conditions and are expected to continue to

change for similar reasons. Many companies with business plans based on providing healthcare information and related services through the Internet have failed to be profitable and some have

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filed for bankruptcy and/or ceased operations. Even if demand from users exists, we cannot assure you that WebMD s businesses will be profitable.

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 offline publications, such as *The Little Blue Book,* is based upon WebMD s 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 WebMD 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.

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 the advertisers needed to make this publication successful in the long term.

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 its services beyond the terms of their existing contracts or that they will enter into any additional contracts.

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:

- the timing of 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

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 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, we 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 private portal revenue is lower than expected, it may not be able to reduce related short-term spending in response. Any shortfall in such revenue would have a direct impact on its results of operations.

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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. 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 spending used on the Internet, we cannot assure you that these advertisers and sponsors will find WebMD s consumer Web site 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 WebMD s business may develop more slowly than we expect or may fail to develop.

WebMD could be subject to breach of warranty or other claims by clients of our online portals if the software and systems we use to provide them contain errors or experience failures

Errors in the software and systems WebMD uses could cause serious problems for clients of its online portals. WebMD may fail to meet contractual performance standards or fail to meet expectations that its clients have for them. Clients of WebMD s online portals may seek compensation from WebMD or may seek to terminate their agreements with WebMD, withhold payments due to WebMD, seek refunds from WebMD of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. In addition, WebMD could face breach of warranty or other claims by clients or additional development costs. WebMD s software and systems are inherently complex and, despite testing and quality control, we cannot be certain that they are error free.

WebMD attempts to limit, by contract, its liability to its clients for damages arising from its negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to WebMD from liability for damages. WebMD maintains liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of WebMD s 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 WebMD, investigating and defending against them could be expensive and time consuming and would divert management s attention away from WebMD s operations. In addition, negative publicity caused by these events may delay or hinder market acceptance of WebMD s services, including unrelated services.

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

WebMD s ability to deliver its 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 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 WebMD s Internet-based services. In

addition, customers who utilize WebMD s Web-based services depend on Internet service providers, online service providers and other Web site operators for access to WebMD s Web sites. 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 WebMD s systems. Any significant

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interruptions in WebMD s services or increases in response time could result in a loss of potential or existing users of and advertisers and sponsors on WebMD s Web sites and, if sustained or repeated, could reduce the attractiveness of WebMD s services.

WebMD relies on bandwidth providers, data center providers, other third parties and its own systems for key aspects of the process of providing products and services to its users, and any failure or interruption in the services provided by these third parties or WebMD s own systems could harm WebMD s business

WebMD s online services are designed to operate 24 hours a day, seven days a week, without interruption. However, WebMD has experienced and expects that it will in the future experience interruptions and delays in services and availability from time to time. WebMD relies on internal systems as well as third-party vendors, including data center providers and bandwidth providers, to provide its online services. WebMD does not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, WebMD may experience an extended period of system unavailability, which could negatively impact its relationship with users. To operate without interruption, both WebMD and its service providers must guard against:

damage from fire, power loss and other natural disasters;

communications failures;

software and hardware errors, failures and crashes;

security breaches, computer viruses and similar disruptive problems; and

other potential interruptions.

Any disruption in the network access or co-location services provided by these third-party providers or any failure of or by these third-party providers or WebMD s own systems to handle current or higher volume of use could significantly harm WebMD s business. WebMD exercises little control over these third-party vendors, which increases its vulnerability to problems with services they provide.

Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and information services or WebMD s own systems could negatively impact its relationships with users and adversely affect its brand and its business and could expose WebMD to liabilities to third parties. Although WebMD maintains insurance for its business, the coverage under its policies may not be adequate to compensate it for all losses that may occur. In addition, we cannot provide assurance that WebMD will continue to be able to obtain adequate insurance coverage at an acceptable cost.

Implementation of additions to or changes in hardware and software platforms used to deliver WebMD s online services may result in performance problems and may not provide the additional functionality that was expected

From time to time, WebMD implements additions to or changes in the hardware and software platforms that it uses for providing its online services. During and after the implementation of additions or changes, a platform may not perform as expected, which could result in interruptions in operations, an increase in response time or an inability to track performance metrics. In addition, in connection with integrating acquired businesses, WebMD may move their operations to its hardware and software platforms or make other changes, any of which could result in interruptions in those operations. Any significant interruption in WebMD s ability to operate any of its online services could have an adverse effect on its relationships with users and clients and, as a result, on its financial results. WebMD relies on a combination of purchasing, licensing, internal development, and acquisitions to develop its hardware and software

platforms. WebMD s implementation of additions to or changes in these platforms may cost more than originally expected, may take longer than originally expected, and may require more testing than originally anticipated. 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.

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If the systems WebMD uses to provide online portals experience security breaches or are otherwise perceived to be insecure, its business could suffer

WebMD retains and transmits confidential information, including personal health records, in the processing centers and other facilities it uses to provide online services. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. A security breach could damage WebMD s reputation or result in liability. WebMD 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 WebMD interfaces 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 WebMD s security, whether as a result of its own systems or the systems that they interface with, could reduce demand for its services and could subject WebMD to legal claims from its clients and users, including for breach of contract or breach of warranty.

WebMD faces potential liability related to the privacy and security of personal information it collects from consumers and healthcare professionals

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 it believes comply with applicable laws requiring notice to users about its 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. In addition, WebMD notifies users about its information collection, use and disclosure practices relating to data it receives through offline means, such as paper health risk assessments. We cannot assure you that WebMD s online or offline practices will be found sufficient to protect it from liability or adverse publicity in this area. Any new legislation or regulation in the area of privacy of personal information, including personal health information, could require WebMD to modify its operations and could adversely affect its business and prospects.

Failure to maintain its CME accreditation could adversely affect WebMD s 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. WebMD believes it has modified its procedures as appropriate to meet the revised standards. However, WebMD cannot be certain whether these adjustments will ensure that it meets these standards or predict whether ACCME may impose additional requirements.

If 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 to maintain WebMD s 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.

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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 it offers or provides 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.

Risks Related to ViPS

ViPS depends on CMS for a significant portion of its revenues and, if ViPS reputation or relationship with CMS were harmed, ViPS financial results would be adversely affected

ViPS is heavily dependent upon The Centers for Medicare & Medicaid Services, or CMS, as its primary source of revenue (directly as a prime contractor or indirectly as a subcontractor) and we believe that the success and development of its business will continue to depend on its successful participation in CMS contract programs. ViPS generated approximately 71% of its revenue from CMS (as prime contractor or as a subcontractor) in 2006 and approximately 72% of its revenue in 2005. ViPS reputation and relationship with CMS is a key factor in maintaining and growing revenues under contracts with CMS. Negative press reports regarding poor contract performance, employee misconduct, information security breaches or other aspects of our business (including aspects of Emdeon s business that are unrelated to ViPS) could harm ViPS reputation. If ViPS reputation with CMS is negatively affected, or if it is suspended or debarred from contracting with government agencies for any reason, such actions would decrease the amount of business that CMS does with ViPS and ViPS financial results would be adversely affected.

ViPS is currently in the process of responding to a Request for Proposals issued by CMS for a new, indefinite delivery/indefinite quantity (IDIQ), performance-based contracting vehicle named Enterprise Systems Development, or ESD, under which ViPS expects CMS to award four to six prime contracts to the bidders that are selected through the process. We understand that it is CMS intent to procure most, if not all, information technology development work through this contract vehicle for approximately the next ten (10) years. If ViPS is not selected to be one of the four to

six prime contractors under ESD, it will have only the more limited opportunity to pursue work under ESD as a subcontractor. There can be no assurance that ViPS will be awarded a prime contract under ESD or, if it is not awarded a prime contract, that opportunities as a subcontractor will be available or that ViPS will be selected as a subcontractor. As a result, if ViPS is not awarded a prime contract under ESD, its revenue from CMS programs could be significantly reduced, which could adversely affect ViPS financial results.

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In addition, contracts under ESD will have significantly greater compliance obligations for prime contractors and subcontractors than contracts issued under the predecessor Professional Technology Services or PITS contracting vehicle. These compliance obligations may make performance under ESD more difficult and costly than performance under PITS, which could adversely affect ViPS financial results.

In recent years, CMS has been required to increase the amount of business it does with small businesses. This trend is expected to continue and may decrease the amount of business that CMS does with ViPS and adversely affect ViPS financial results.

ViPS depends on being retained as a subcontractor by other CMS contractors for a significant portion of its revenues and, if ViPS reputation or relationships with CMS or such contractors were harmed, ViPS financial results would be adversely affected

ViPS depends on being retained as a subcontractor by other CMS contractors for a significant portion of its revenues. ViPS generated approximately 17% of its revenue in 2006 and approximately 18% of its revenue in 2005 from acting as a subcontractor for other CMS contractors. ViPS financial results could be adversely affected if other CMS contractors eliminate or reduce their subcontracts with ViPS (which could occur if, for example, ViPS reputation or relationship with CMS is negatively affected as discussed above) or if CMS terminates or reduces these other contractors programs, does not award them new contracts or refuses to pay under a contract.

CMS may modify, curtail or terminate contracts prior to their completion and, if ViPS does not replace them, its financial results may suffer

Many of the CMS contracts in which ViPS participates as a contractor or subcontractor may extend for several years. These programs are normally funded on an annual basis. Under these contracts, CMS generally has the right not to exercise options to extend or expand ViPS contracts and may modify, curtail or terminate the contracts and subcontracts at its convenience. Any decision by CMS not to exercise contract options or to modify, curtail or terminate ViPS major programs or contracts would adversely affect ViPS financial results.

ViPS CMS contracts may be terminated and ViPS may be liable for penalties under a variety of procurement rules and regulations

ViPS must comply with laws and regulations relating to the formation, administration and performance of CMS contracts. Such laws and regulations may potentially impose added costs on ViPS business and its failure to comply with them may lead to penalties and the termination of its CMS contracts. Some significant regulations that affect ViPS include the following:

- The Federal Acquisition Regulation and supplements, which regulate the formation, administration and performance of U.S. Government contracts;
- The Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations; and
- The Cost Accounting Standards, which impose accounting requirements that govern ViPS right to reimbursement under certain cost-based government contracts.

ViPS contracts with CMS are subject to periodic review, investigation and audit by the government. If such a review, investigation or audit identifies improper or illegal activities, ViPS (or possibly Emdeon as a whole) may be subject to

civil or criminal penalties or administrative sanctions, including the termination of contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines and suspension or debarment from doing business with U.S. Government agencies. ViPS could also suffer harm to its reputation if allegations of impropriety were made against it, which could impair its or Emdeon s ability to win awards of contracts in the future or to receive renewals of existing contracts. If ViPS incurs a material penalty or administrative sanction or otherwise suffers harm to its reputation, ViPS financial results could be adversely affected.

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For additional information regarding risks relating to government contracting, see *Risks Applicable to Our Entire Company and to Ownership of Our Securities Contractual relationships with governmental customers may impose special burdens and additional risks on us that are not generally found in contracts with other customers* below.

ViPS is subject to routine audits and cost adjustments by CMS, which, if resolved unfavorably to ViPS, could adversely affect its profitability

U.S. Government agencies routinely audit and review their contractors performance on contracts, cost structure, pricing practices and compliance with applicable laws, regulations and standards. They also review the adequacy of, and a contractor s compliance with, its internal control systems and policies, including the contractor s purchasing, property, estimating, compensation and management information systems. Such audits may result in adjustments to ViPS contract costs, and any costs found to be improperly allocated will not be reimbursed. ViPS records contract revenues based upon costs it expects to realize upon final audit. However, ViPS may not be able to accurately predict the outcome of future audits and adjustments and, if future audit adjustments exceed its estimates, ViPS profitability could be adversely affected.

Changes in government regulations or practices could adversely affect ViPS financial results

The U.S. Government and/or CMS may revise procurement practices or adopt new contract rules and regulations at any time. Any changes could impair ViPS ability to obtain new contracts or contracts under which it currently performs when those contracts are put up for recompetition bids. In addition, new contracting methods could be costly or administratively difficult for ViPS to implement and could adversely affect its financial results.

If subcontractors with which ViPS works fail to satisfy their obligations to ViPS or to the customers, ViPS reputation and financial results could be adversely affected

ViPS depends on subcontractors in conducting its business. There is a risk that ViPS may have disputes with its subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, and ViPS failure to extend existing task orders or issue new task orders under a subcontract. In addition, if any of ViPS subcontractors fail to perform the agreed-upon services, ViPS ability to fulfill its obligations may be jeopardized. If that happens, it could result in a customer terminating a contract for default. A termination for default could expose ViPS to liability and have an adverse effect on ViPS ability to compete for future contracts and orders, especially if the customer is CMS.

If ViPS systems experience security breaches or are otherwise perceived to be insecure, its business could suffer

A security breach could damage ViPS reputation or result in liability. ViPS designs and manages systems that retain and transmit confidential information, including patient health information, in its business operations with CMS and commercial health payers and other facilities. It is critical that ViPS systems and infrastructure remain secure and be perceived by the marketplace as secure. ViPS may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by breaches or to undergo external audit testing of its security programs. Despite the implementation of security measures, ViPS infrastructure or other systems with which it interfaces, 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 ViPS security, whether as a result of its own systems or interfacing systems, could reduce demand for ViPS services and, as a result, have an adverse effect on ViPS financial results.

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Lengthy sales, installation and implementation cycles for some ViPS applications may result in unanticipated fluctuations in its revenues

ViPS provides licensed software products and related services to commercial payers and information technology services to government customers. The period from ViPS initial contact with a potential client and the purchase of a ViPS 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 ViPS control. As a result, ViPS has only limited ability to forecast the timing of revenue from new sales. During the sales cycle and the implementation period, ViPS may expend substantial time, effort and money preparing contract proposals and negotiating contracts without receiving any related revenue.

ViPS could be subject to breach of warranty, product liability or other claims if software or services it provides contain errors or do not meet contractual performance standards

ViPS software products and the services ViPS provides are inherently complex and, despite testing and quality control, ViPS cannot be certain that errors will not be found. Errors in the software or services that ViPS provides to customers could cause serious problems for its customers. If problems like these occur, ViPS customers may seek compensation from ViPS or may seek to terminate their agreements with ViPS, withhold payments due to ViPS, seek refunds from ViPS of part or all of the fees charged under those agreements or initiate litigation or other dispute resolution procedures. In addition, ViPS may be subject to claims against it by others affected by any such problems. In addition, ViPS could face breach of warranty or other claims or additional development costs if its software and services do not meet contractual performance standards, do not perform in accordance with their documentation, or do not meet the expectations that its customers have for them.

ViPS attempts to limit, by contract, its liability for damages arising from its negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to ViPS from liability for damages. ViPS maintains liability insurance coverage, including coverage for errors and omissions. However, it is possible that claims could exceed the amount of the 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 ViPS, investigating and defending against them could be expensive and time consuming and could divert management s attention away from operations. In addition, negative publicity caused by these events may delay market acceptance of ViPS products and services, including unrelated products and services, or may harm its reputation and business.

ViPS HealthPayer Solutions Group depends on Blue Cross Blue Shield Plans and the Blue Cross Blue Shield Association for a significant portion of it revenue and, if its reputation or relationship with the BCBS business community were harmed, that business would be adversely affected.

ViPS s HealthPayer Solutions Group depends on Blue Cross Blue Shield (BCBS) Plans and the Blue Cross Blue Shield Association (BCBSA) for a significant portion of its revenue. The HealthPayer Solutions Group s reputation and relationship with BCBS Plans and BCBSA is a key factor in maintaining and growing these revenues. Negative press reports, employee misconduct, information security breaches or performance problems with one or more of the HealthPayer Solutions Group s products or services could harm the HealthPayer Solutions Group s reputation and cause BCBS Plans or BCBSA to reduce or terminate their use of its products and services. In addition, similar

problems involving other businesses of Emdeon (including other businesses of ViPS) could also have an adverse effect on the HealthPayer Solutions Group s reputation and its relationships with BCBS Plans or BCBSA.

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Risks Related to Porex

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.

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

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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 depend, to a great extent, on 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. In addition, Porex is subject to the risk that a government authority or third party may require it to recall one or more of its 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.

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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;

changes in tax laws;

differing protection of intellectual property rights in different countries; and

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 Related to Our Investment in EBSCo

We have a minority investment in EBSCo, which is now a highly leveraged company

In November 2006, we sold a majority interest in EBS to an affiliate of General Atlantic LLC. The acquisition was financed in part with approximately $925 million in bank debt, which is an obligation of EBSCo s subsidiaries and guaranteed by EBSCo. The debt incurred in connection with this transaction will reduce the profitability of EBSCo and the loan agreements related to this debt contain covenants restricting payment of dividends by EBSCo. In addition, if EBSCo s subsidiaries are not able to service this debt with cash flow from operations, that could have a material adverse effect on EBSCo s results of operations and the value of our investment. Moreover, as a holder of a minority interest in EBSCo, we do not have voting control over the entity, and are not able to make decisions regarding the affairs of EBSCo except to the extent specifically provided for in EBSCo s corporate governance documents.

The financial results of EBSCo and the value of our investment in it could be adversely affected to the extent healthcare 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 EBS and other independent companies to transmit healthcare transactions. Some payers currently offer electronic data transmission services to healthcare providers that bypass third-party electronic data interchange, or EDI, service providers such as EBS. In addition, some payers currently offer electronic data transmission services through affiliated clearinghouses that compete with EBS. We cannot provide assurances that EBS will be able to maintain its 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 EBS s transaction volume and financial results. In addition, any increase in the ability of payers to bypass third-party EDI service providers may adversely affect

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the terms and conditions EBS is able to negotiate in its agreements with them, which could also have an adverse impact on EBS s business and on the financial results of EBSCo and the value of our investment in it.

The financial results of EBSCo and the value of our investment in it could be adversely affected to the extent healthcare payers and providers compete with EBS or, instead of using a third-party provider, perform internally some of the same services that EBS offers

Some of EBS s existing payer and provider customers compete with it or may plan to do so or belong to alliances that compete with it or plan to do so, either with respect to the same products and services it provides to them or with respect to some of EBS s 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 EBS, and additional payers may do so in the future. The ability of payers to do so may adversely affect the terms and conditions EBS is able to negotiate in its connectivity agreements with them and its transaction volume. We cannot provide assurance that EBS will be able to maintain its existing relationships for connectivity services with payers or develop new relationships on satisfactory terms, if at all. In addition, some of EBS s services allow healthcare payers to outsource business processes that they have been or could be performing internally and, in order for EBS to be able to compete, use of its services must be more efficient for payers than use of their own internal resources.

The financial results of EBSCo and the value of our investment in it could be adversely affected if it does not maintain relationships with practice management system vendors and large submitters of healthcare EDI transactions

EBS has developed relationships with practice management system vendors and large submitters of healthcare claims to increase the usage of its transaction services. In the past several years, there has been consolidation of practice management systems vendors, including among some of the larger such vendors, which may increase their bargaining power in negotiations with EBS. To the extent that it is not able to maintain mutually satisfactory relationships with the larger practice management system vendors and large submitters of healthcare EDI transactions, EBS s transaction volume and financial results could be adversely affected, which would reduce the value of our investment in EBS.

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

The future financial results of EBSCo and the value of our investment in it will depend, in part, on whether its new or updated products and services receive sufficient customer acceptance, including:

- the business process outsourcing services for payers that it has developed internally and through acquisitions;
- electronic billing, payment and remittance services for healthcare payers and providers that complement our existing paper based paid claims communication and patient billing services; and
- its other pre- and post-adjudication services for payers and providers.

There can be no assurance that payers and providers who use EBS for sending and receiving claims will use its other services. Providers and payers may choose to use similar products and services offered by our competitors, especially if they are already using products and services of those competitors and have made investments in hardware, software and training relating to those products and services. Even providers and payers that are already customers of EBS may not purchase new or updated products or services, especially when they are initially offered or if they require additional equipment or changes in workflow. Failure to achieve broad penetration in target markets with respect to

new or updated products and services could have an adverse effect on the business prospects and financial results of EBS, which would reduce the value of our investment in EBS.

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For services that EBS is developing or may develop in the future, there can be no assurance that it 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 future products and services may require or make advisable related changes in the manner in which EBS markets, delivers and prices its products and services, including pre-existing products and services. There can be no assurance that any pricing strategy that EBS implements for any new products and services will be economically viable or acceptable to the target markets.

EBS s ability to provide transaction services depends on services provided by telecommunications companies

EBS 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 EBS. There has also been consolidation of telecommunications companies, further reducing the number of telecommunications companies competing for business. EBS s 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 an adverse effect on EBSCo s financial results and the value of our investment in it.

If EBS s systems experience security breaches or are otherwise perceived to be insecure, its business could suffer

A security breach could damage EBS s reputation or result in liability. EBS retains and transmits confidential information, including patient health information, in its processing centers and other facilities. It is critical that these facilities and infrastructure remain secure and be perceived by the marketplace as secure. EBS 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, EBS s infrastructure or other systems that it interfaces 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 EBS s security, whether as a result of its own systems or systems that they interface with, could reduce demand for EBS s services and, as a result, have an adverse effect on EBSCo s financial results and the value of our investment in it.

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

EBS s customer satisfaction and its business could be harmed if it experiences transmission delays or failures or loss of data in the systems it uses to provide services to its customers, including the transaction-related services that it provides to healthcare payers. These systems, and the software used in these systems, are complex and, despite testing and quality control, EBS 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 EBS and the third-party service providers that EBS uses 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.

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

Risks Related to Providing Products and Services to the Healthcare Industry

Reductions in expenditures by healthcare industry participants could adversely affect us

Developments that result in a reduction of expenditures by healthcare industry participants could have a material adverse effect on the businesses of WebMD, ViPS and EBS. In addition, a significant portion of Porex s revenue comes from products used in healthcare or related applications. 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 or in tax benefits applicable to healthcare expenditures; 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 healthcare 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 EBS serves. For example, use of our or EBS s 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, healthcare industry participants 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 WebMD provides.

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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.

Government regulation of healthcare creates risks and challenges with respect to the compliance efforts and business strategies of WebMD, ViPS, Porex and EBS

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, could cause us to incur additional costs and could restrict our operations. Similar risks apply to EBS. 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 that we face from healthcare regulation are as follows:

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 WebMD to contract for sponsorships and advertising;

because WebMD is the leading distributor of online CME to healthcare professionals, any failure to maintain its status as an accredited CME provider or any change in government regulation of CME or in industry practices could adversely affect WebMD s business;

because Porex manufactures medical devices for implantation, it is subject to extensive FDA regulation, as well as foreign regulatory requirements;

because we provide products and services to healthcare providers, our sales and promotional practices must comply with federal and state anti-kickback 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.

Some of the risks that EBS faces from healthcare regulations are as follows:

because EBS is 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 EBS; and

EBS s healthcare connectivity and transaction-related administrative services must be provided in compliance with federal and state false claims laws.

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 Annual 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 Medical Manager Health Systems, a former subsidiary of Emdeon; 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

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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, we have agreed to indemnify Sage Software with respect to this matter.

The dispositions of Emdeon Practice Services and Emdeon Business Services may create contractual liabilities, including for indemnifications, as well as other risks and liabilities

We may face significant expense as a result of ongoing obligations in connection with the sale of Emdeon Practice Services to Sage Software and the sale of a 52% interest in Emdeon Business Services to an affiliate of General Atlantic LLC. The agreements we entered into in connection with those transactions require us to indemnify the purchasers for specified losses incurred by them or resulting from the inaccuracy of representations made by us in connection with the transactions. We will remain exposed to these liabilities until the indemnification periods expire under the agreements. In addition, we may be subject to other, unforeseen risks and liabilities relating to those transactions. Although our management has attempted to evaluate and assess the potential liabilities involved in those transactions, we cannot assure you that we have properly ascertained all of the risks.

We depend on EBS to provide us with certain services required by us for the operation of our business

Certain administrative services required by us for the operation of our business are provided to us by EBS under a Transition Services Agreement. These services include telecommunication infrastructure and management services, data center support and purchasing and procurement services. A disruption in the provision of these services by EBS could have an adverse effect on the operation of our business.

We reimburse EBS in agreed upon amounts or under agreed-upon formulas based on EBS s costs related to those services. The costs we are charged under the Transition Services Agreement are not necessarily indicative of the costs that we would incur if we had to provide the services on our own or contract for them with third parties on a stand-alone basis.

If certain transactions occur with respect to our capital stock, limitations may be imposed on our ability to utilize our net operating loss carryforwards and tax credits to reduce our income taxes

As of December 31, 2006, we had net operating loss carryforwards of approximately $1.2 billion for federal income tax purposes and federal tax credits of approximately $35 million. If certain transactions occur with respect to our capital stock, including issuances, redemptions, recapitalizations, exercises of options, conversions of convertible debt, purchases or sales by 5%-or-greater shareholders and similar transactions, that result in a cumulative change of more than 50% of the ownership of our capital stock, over a three-year period, as determined under rules prescribed by the U.S. Internal Revenue Code and applicable Treasury regulations, an annual limitation would be imposed with respect to our ability to utilize our net operating loss carryforwards and federal tax credits.

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

The success of our company 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

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business. Similarly, EBS s failure to attract and retain qualified executives and employees may have an adverse effect on its business.

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

In the past 18 months, we have experienced significant changes in our senior management. The President of our company, who was also the head of our Emdeon Business Services segment, left in December 2005. We hired a new Chief Financial Officer in November 2006, after our previous Chief Financial Officer took a position with Sage Software in connection with our sale of Emdeon Practice Services to Sage Software. We have also announced that our Chief Executive Officer may change positions within our company for health reasons. 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.

Contractual relationships with governmental customers may impose special burdens and additional risks on us that are not generally found in contracts with other customers

A significant portion of ViPS revenue and a portion of the revenue of EBS and WebMD 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.

Risks and uncertainties similar to the above apply to EBS s contractual relationships with governmental entities.

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

Rights to intellectual property are important to 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. EBS is subject to similar risks relating to its intellectual property and proprietary rights.

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. EBS is subject to similar risks relating to claims that it is infringing the intellectual property of third parties.

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 December 31, 2006, we had an accumulated deficit of approximately $9.3 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.

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

We intend 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. Similar risks and uncertainties apply to EBSCo s efforts to make acquisitions or to

engage in business combinations.

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

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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 successfu