PROXYMED INC /FT LAUDERDALE/
Form 10-K/A
March 31, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

þ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004
or

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number 000-22052

PROXYMED, INC.

(Exact name of registrant as specified in its charter)

Florida	**65-0202059**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1854 Shackleford Court, Suite 200, Atlanta, Georgia	**30093**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (770)-806-9918

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

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

Common Stock, $.001 Par Value
(Title of class)

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. þ Yes o No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). þ Yes o No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed using $17.07 per share, the closing price of the registrant s common stock on the Nasdaq National Market as of the last business day of the registrant s most recently completed second fiscal quarter, was $90,445,875.

As of March 11, 2005, 12,626,567 shares of the registrant s common stock were issued and outstanding.

Documents Incorporated by Reference: Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on or about June 1, 2005, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Explanatory Note

This Amendment No. 1 on Form 10-K/A, or Amendment No. 1, is being filed by ProxyMed, Inc. to amend our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission, or SEC, on March 17, 2005.

This Amendment No. 1 corrects two typographical errors in Item 15. Exhibits And Financial Statement Schedules. Corrected data includes only the following:

In the Consolidated Balance Sheet, the number of authorized shares of the Company.

In Note 15 to the Financial Statements, the amount of Cash Paid for Interest for 2004.

The Exhibit Index is being supplemented to include a Letter Agreement dated as of March 8, 2005, between the Company and John D. Guinan (filed as Exhibit 10.46), which was inadvertently omitted from the Annual Report. The complete text of Item 15 and the Exhibit Index is included in this Amendment pursuant to Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended (the Exchange Act).

In addition, Item 15 and the Exhibit Index include the certifications required pursuant to Rules 13a-14(a)/15d-14(a) of the Exchange Act, which have been re-executed and re-filed as of the date of this Amendment. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Amendment as Exhibits 31.1 and 31.2, respectively.

This Amendment No. 1 does not update any other disclosures to reflect developments since the original date of filing. Unaffected items have not been repeated in this Amendment No. 1, and no other changes have been made.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to Form 10-K for the year ended December 31, 2004 to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 30, 2005	PROXYMED, INC.
	By: /s/ *Kevin M. McNamara* Kevin M. McNamara Interim Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kevin M. McNamara and Gregory J. Eisenhauer and each of them, his true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES	**TITLE**	**DATE**

PROXYMED, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements and Schedule

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ProxyMed, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheet of ProxyMed, Inc. and its subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2) for the year ended December 31, 2004. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audit. The financial statements and financial statement schedule of the Company for the years ended December 31, 2003 and 2002 were audited by other auditors whose report, dated March 25, 2004, expressed an unqualified opinion on the financial statements and financial statement schedule and included an explanatory paragraph that described the adoption of Financial Accounting Standards Board Statement No. 142, *Goodwill and Other Intangible Assets* discussed in Note 9 to the financial statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ProxyMed, Inc. and its subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein for the year ended December 31, 2004.

The accompanying consolidated financial statements for the year ended December 31, 2004 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 21 to the financial statements, the Company s potential inability to pay certain current debt obligations when due raises substantial doubt about its ability to continue as a going concern. Management s plans concerning these matters are described in Note 12(a). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2005 expressed an unqualified opinion on management s assessment of the effectiveness of internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
March 16, 2005

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the
Shareholders of ProxyMed, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(l) on page (57) present fairly, in all material respects, the financial position of ProxyMed, Inc. and its subsidiaries (the Company) at December 31, 2003 and the results of their operations and their cash flows for each of the **two** years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) on page (57) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 8 to the consolidated financial statements, pursuant to the adoption of Financial Accounting Standards Board Statement No. 142, *Goodwill and Other Intangible Assets*, the Company changed its method of accounting for goodwill in 2002.

/s/ PricewaterhouseCoopers LLP

Fort Lauderdale, Florida
March 25, 2004

PROXYMED, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2004 and 2003
(amounts in thousands except for share and per share data)

Assets	2004	2003
Current assets:		
Cash and cash equivalents	$ 12,374	$ 5,333
Accounts receivable trade, net of allowance for doubtful accounts of $3,168 and $882 respectively	17,591	10,434
Other receivables	312	187
Inventory, net	1,775	3,347
Other current assets	1,399	1,908
Total current assets	33,451	21,209
Property and equipment, net	4,801	4,772
Goodwill, net	93,604	30,775
Purchased technology, capitalized software and other intangible assets, net	52,305	15,884
Restricted cash	75	291
Other long-term assets	167	199
Total assets	$ 184,403	$ 73,130
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 2,178	$ 1,712
Related party debt - See Notes 12(a) and 21	18,394	
Accounts payable and accrued expenses and other current liabilities	13,637	8,264
Deferred revenue	691	721
Income taxes payable	215	
Total current liabilities	35,115	10,697
Convertible notes	13,137	13,137
Other long term debt	206	2,057
Long-term deferred revenue and other long-term liabilities	863	1,461
Total liabilities	49,321	27,352
Commitments and contingencies see Notes 18 and 19		
Stockholders equity:		
Series C 7% Convertible preferred stock $.01 par value Authorized 300,000 shares; issued 253,265 shares; outstanding 2,000; liquidation preference $200		
Common stock $.001 par value. Authorized 30,000,000 shares; issued and outstanding 12,626,182 and 6,784,118 shares, respectively	13	7
Additional paid-in capital	239,255	146,230

Unearned compensation	(113)	
Accumulated deficit	(104,073)	(100,273)
Note receivable from stockholder		(186)
Total stockholders equity	135,082	45,778
Total liabilities and stockholders equity	$ 184,403	$ 73,130

The accompanying notes are an integral part of the consolidated financial statements.

PROXYMED, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended December 31, 2004, 2003 and 2002
(amounts in thousands except for share and per share data)

	2004	2003	2002
Net revenues:			
Transaction fees, cost containment services and license fees	$ 73,538	$ 51,813	$ 28,455
Communication devices and other tangible goods	16,708	19,743	21,727
	90,246	71,556	50,182
Costs and expenses:			
Cost of transaction fees, cost containment services and license fees excluding depreciation and amortization	22,626	15,917	8,858
Cost of laboratory communication devices and other tangible goods excluding depreciation and amortization	11,586	16,504	17,158
Selling, general and administrative expenses	48,023	35,809	20,152
Depreciation and amortization	9,763	6,316	2,636
Loss on disposal of assets	47	111	
Litigation settlement	175		
Write-off of impaired and obsolete assets		541	38
	92,220	75,198	48,842
Operating income (loss)	(1,974)	(3,642)	1,340
Other income (expense), net	134	(496)	265
Interest income (expense), net	(1,920)	(862)	345
Income (loss) before income taxes	(3,760)	(5,000)	1,950
Provision for income taxes	40		
Net income (loss)	(3,800)	(5,000)	1,950
Deemed dividends and other charges			612
Net income (loss) applicable to common shareholders	$ (3,800)	$ (5,000)	$ 1,338
Basic weighted average shares outstanding	11,617,601	6,783,742	6,322,086

Basic earnings (loss) per share	$ (0.33)	$ (0.74)	$ 0.21
Diluted weighted average shares outstanding	11,617,601	6,783,742	6,396,893
Diluted earnings (loss) per share	$ (0.33)	$ (0.74)	$ 0.21

The accompanying notes are an integral part of the consolidated financial statements.

PROXYMED, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity
Years Ended December 31, 2004, 2003 and 2002
(amounts in thousands except for share and per share data)

	Series C Preferred stock Number of shares	Series C Preferred stock Par value	Common stock Number of shares	Common stock Par value	Additional paid-in capital	Unearned Compensation	Accumulated deficit	Note receivable from stockholder	Total
Balances, December 31, 2001	34,650	$	4,894,433	$ 5	$ 120,277	$	$ (97,223)	$ (186)	$ 22,873
Sales of common stock, net of expenses of $139			1,569,366	2	24,884				24,886
Common stock issued for acquired business			30,034		600				600
Conversions of Series C preferred stock pursuant to Conversion Offer	(31,650)		242,508						
Conversions of Series C preferred stock	(1,000)		6,666						
Exchange of Series B warrants into common stock			34,500		450				450
Exchange of Series C warrants into common stock			1,190						
Dividends on preferred stock			4,241						
Other, net					(24)				(24)
Net income							1,950		1,950
Balances, December 31, 2002	2,000		6,782,938	7	146,187		(95,273)	(186)	50,735
Exercise of stock options			555		7				7
Other, net			625		36				36
Net loss							(5,000)		(5,000)
	2,000		6,784,118	7	146,230		(100,273)	(186)	45,778

Balances, December 31, 2003									
Exercise of stock options			1,558		16				16
Exercise of warrants			549,279		8,750				8,750
Common stock issued for acquired Business			3,600,000	4	59,756				59,760
Sales of common stock, net			1,691,227	2	24,048				24,050
Unearned compensation charge for options					295	(295)			
Compensatory option charges					92	182			274
Compensatory option charge included in loss on disposal of assets					68				68
Repayment of note receivable from shareholder								186	186
Net loss							(3,800)		(3,800)
Balances, December 31, 2004	2,000	$	12,626,182	$ 13	$ 239,255	$ (113)	$ (104,073)	$	$ 135,082

The accompanying notes are an integral part of the consolidated financial statements.

PROXYMED, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2004, 2003 and 2002
(amounts in thousands except for share and per share data)

	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$ (3,800)	$ (5,000)	$ 1,950
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	9,763	6,316	2,636
Provision for doubtful accounts	858	152	38
Provision for obsolete inventory	92	28	
Non-cash interest (income) expense	(59)	54	
Gain on settlement of liability	(134)		
Write-off of obsolete and impaired assets		541	38
Compensatory stock options and warrants and stock compensation awards issued	275		
Write-off of investment		496	
Loss on disposal of fixed assets	47	111	
Changes in assets and liabilities, net of effect of acquisitions and dispositions:			
Accounts and other receivables	548	(498)	(1,445)
Inventory	(1,329)	(601)	747
Other current assets	465	430	(30)
Accounts payable and accrued expenses	124	(1,173)	(1,150)
Accrued expenses of PlanVista paid by ProxyMed	(4,011)		
Deferred revenue	137	222	76
Income taxes	(418)		
Prepaid and other, net	(727)	440	(12)
Net cash provided by operating activities	1,831	1,518	2,848
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	782		(14,453)
Acquisition of assets			(700)
Short term investments			(15,000)
Redemption of short term investments			15,000
Capital expenditures	(3,440)	(2,601)	(1,561)
Capitalized software	(909)	(1,426)	(445)
Collection of notes receivable	374	120	65
Proceeds from sale of fixed assets	4,526	395	
Decrease in restricted cash	215	534	
Payments for acquisition-related costs	(884)	(6,623)	(96)
Net cash provided by (used in) investing activities	664	(9,601)	(17,190)

Cash flows from financing activities:			
Net proceeds from sale of common stock	24,100		24,886
Proceeds from exercise of stock options and warrants	8,766	7	450
Draws on line of credit	4,900		
Repayments of line of credit	(4,900)		
Payment of note payable related to acquisition of business			(7,000)
Payment of related party note payable	(2,000)		
Payment of notes payable, long-term debt and capital leases	(26,320)	(2,969)	(217)
Net cash provided by (used in) financing activities	4,546	(2,962)	18,119

The accompanying notes are an integral part of the consolidated financial statements.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(1) Business and Summary of Significant Accounting Policies

(a) Business of ProxyMed ProxyMed, Inc. (ProxyMed or the Company) is an electronic healthcare transaction and cost containment processing services company providing connectivity and related value-added products to physician offices, payers, medical laboratories, pharmacies and other healthcare providers. ProxyMed s corporate headquarters are located in Atlanta, Georgia and its products and services are provided from various operational facilities located throughout the United States. The Company also operates its clinical computer network and portions of its financial and real-time production computer networks from a secure, third-party co-location site in Atlanta, Georgia.

(b) Principles of Consolidation The consolidated financial statements include the accounts of ProxyMed and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

(c) Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Revenue Recognition Revenue is derived from the Company s Transaction Services and Laboratory Communication Solutions segments.

In its Transaction Services segment, the Company provides transaction and value-added services principally between healthcare providers and insurance companies, and physicians and pharmacies. Such transactions and services include Electronic Data Interchange (EDI) claims submission and reporting, insurance eligibility verification, claims status inquiries, referral management, electronic remittance advice, patient statement processing, encounters, and cost containment transaction services including claims repricing and bill renegotiation. In the Laboratory Communication Solutions segment, the Company sells, rents and services intelligent remote reporting devices and provides lab results reporting through its software products.

Transaction Services revenues are derived from insurance payers, pharmacies and submitters (physicians and other entities including billing services, practice management software vendors, claims aggregators, etc.). Such revenues are recorded on either a per transaction fee basis or on a flat fee basis (per physician, per tax ID, etc.) and are recognized in the period the service is rendered. Agreements between the Company and payers or pharmacies are for one to three years on a non-exclusive basis. Agreements with submitters are generally for one year, renew automatically, and are generally terminable thereafter upon 30 to 90 days notice. Transaction fees vary according to the type of transaction and other factors, including volume level commitments.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Revenue from Medical Cost Containment business in the Transaction Services segment is recognized when the services are performed and are recorded net of their estimated allowances. These revenues are primarily in the form of fees generated from the discounts the Company secures for the payers that access its provider network. The Company enters into agreements with its healthcare payer customers that require them to pay a percentage of the cost savings generated from the Company s network discounts with participating providers. These agreements are generally terminable upon 90 days notice. Revenue from a percentage of savings contract is generally recognized when the related claims processing and administrative services have been performed. The remainder of the Company s revenue from its Medical Cost Containment business is generated from customers that pay a monthly fee based on eligible employees enrolled in a benefit plan covered by the Company s health benefits payers clients.

Also in the Transaction Services segment, certain transaction fee revenue is subject to revenue sharing pursuant to agreements with resellers, vendors or gateway partners and is recorded as gross revenues in accordance with EITF No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. Such revenue sharing amounts are based on a per transaction amount or a percentage of revenue basis and may involve increasing amounts or percentages based on transaction or revenue volumes achieved.

Revenue from certain up-front fees charged primarily for the development of EDI for payers and the implementation of services for submitters in the Transaction Services segment is amortized ratably over three years, which is the expected life of the customer, in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition (SAB No. 104).

Revenue from support and maintenance contracts on the Company s products in both the Transaction Services and Laboratory Communication Solutions segments is recognized ratably over the contract period, which does not exceed one year. Such amounts are billed in advance and established as deferred revenue.

In the Company s Laboratory Communication Solutions segment, revenue from sales of inventory and manufactured goods is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is probable in accordance with SAB No. 104.

Revenues from maintenance fees on laboratory communication devices are charged on an annual or quarterly basis and are recognized ratably over the service period. Service fees may also be charged on a per event basis and are recognized after the service has been performed.

Revenue from the rental of laboratory communication devices is recognized ratably over the applicable period of the rental contract. Such contracts require monthly rental payments and are for a one to three year term, then renewing on a month to month basis after the initial term is expired. Contracts may be cancelled upon 30 days notice. A significant amount of rental revenues are derived from contracts that are no longer under the initial non-cancelable term. At the end of the rental period, the customer may return or purchase the unit for fair market value. Upon sale of the revenue earning equipment, the gross proceeds are included in net revenues and the undepreciated cost of the equipment sold is included in cost of sales.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(e) Fair Value of Financial Instruments Cash and cash equivalents, notes and other accounts receivable, and restricted cash are financial assets with carrying values that approximate fair value. Accounts payable, other accrued expenses and liabilities, notes payable, and short-term and long-term debt are financial liabilities with carrying values that approximate fair value. The notes payable bear interest rates that approximate market rates.

(f) Cash and Cash Equivalents The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash balances in excess of immediate needs are invested in bank certificates of deposit, money market accounts and commercial paper with high-quality credit institutions. At times, such amounts may be in excess of FDIC insurance limits. The Company has not experienced any loss to date on these investments. Cash and cash equivalents used to support collateral instruments, such as letters of credit, are reclassified as either current or long-term assets depending upon the maturity date of the obligation they collateralize.

(g) Reserve for Doubtful Accounts/Revenue Allowances/Bad Debt Estimates The Company relies on estimates to determine the bad debt expense and the adequacy of the reserve for doubtful accounts receivable. These estimates are based on the Company s historical experience and the industry in which it operates. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Additionally, in the Medical Cost Containment business, the Company evaluates the collectibility of its accounts receivable based on a combination of factors, including historical collection ratios.

In circumstances where the Company is aware of a specific customer s inability to meet its financial obligations, it records a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount it reasonably believes will be collected. For all other customers, the Company recognizes reserves for bad debts based on past write-off history and the length of time the receivables are past due. To the extent historical credit experience is not indicative of future performance or other assumptions used by management do not prevail, loss experience could differ significantly, resulting in either higher or lower future provision for losses.

(h) Inventory Inventory, consisting of component parts, materials, supplies and finished goods (including direct labor and overhead) used to manufacture laboratory communication devices, is stated at the lower of cost (first-in, first-out method) or market. Reserves for inventory shrinkage are maintained and are periodically reviewed by management based on our judgment of future realization.

(i) Property and Equipment Property and equipment is stated at cost and includes revenue earning equipment. Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives generally over 2 to 7 years. Leasehold improvements are amortized on the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gains or losses are reflected in operating expenses for the period. Maintenance and repair of property and equipment are charged to expense as incurred. Renewals and betterments are capitalized and depreciated. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for Impairment or Disposition of Long-lived Assets, management periodically reviews the Company s fixed assets for obsolescence, damage and impairment. This review indicates whether the assets will be recoverable based on estimated future cash flows on an undiscounted basis and determines if any impairment has occurred.

(j) Intangible Assets

Goodwill Goodwill is reviewed at least annually for impairment. In addition, SFAS No. 142 requires that goodwill be tested for impairment at least annually utilizing fair value methodology. We completed our most recent annual test at December 31, 2004 utilizing cash flow-based market comparables in assessing fair value for our goodwill impairment testing and we concluded that there was no impairment of our goodwill. To the extent that future cash flows differ from those projected in our analysis, fair value of the Company s goodwill may be affected and may result in an impairment charge.

Other Intangibles Other acquired intangible assets, consisting of customer relationships and provider networks, are being amortized on a straight-line or accelerated basis over their estimated useful lives of 4.6 to 12 years.

The Company reviews the carrying values of acquired technology and intangible assets if the facts and circumstances suggest that they may be impaired. This evaluation indicates whether assets will be recoverable based on estimated future undiscounted cash flows. If the assets are not recoverable, an impairment charge is recognized if the carrying value exceeds the estimated fair value.

Purchased Technology and Capitalized Software The Company has recorded amounts related to various software and technology that it has purchased or developed for its own internal systems use.

Internal and external costs incurred to develop internal-use computer software during the application development stage are capitalized. Application development stage costs generally include software configuration, coding, installation to hardware and testing. Costs of upgrades and major enhancements that result in additional functionality are also capitalized. Costs incurred for maintenance and minor upgrades are expensed as incurred. All other costs are expensed as incurred as research and development expenses (which are included in selling, general and administrative expenses). Capitalized internal-use software development costs are periodically evaluated by ProxyMed for indications that the carrying value may be impaired or that the useful lives assigned may be excessive. This evaluation indicates whether assets will be recoverable based on estimated future cash flows on an undiscounted basis, and if they are not recoverable, an impairment charge is recognized if the carrying value exceeds the estimated fair value.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Purchased technology and capitalized software are being amortized on a straight-line basis over their estimated useful lives of 1 to 12 years. Purchased technology and capitalized software and related accumulated amortization are removed from the accounts when fully amortized and are no longer being utilized.

Research and Development Software development costs incurred prior to the application development stage are charged to research and development expense when incurred. Research and development expense of approximately $2.3 million in 2004, $4.4 million in 2003, and $3.2 million in 2002 was recorded in selling, general and administrative expenses.

(k) Income Taxes Deferred income taxes are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are also established for the future tax benefits of loss and credit carryovers. Valuation allowances are established for deferred tax assets when, based on the weight of available evidence, it is deemed more likely than not that such amounts will not be realized.

(l) Net Income (Loss) Per Share Basic net income (loss) per share is computed by dividing net income (loss) applicable to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share reflects the potential dilution from the exercise or conversion of securities into common stock. The following schedule sets forth the computation of basic and diluted net income (loss) per share for the years ended December 31, 2004, 2003 and 2002:

In thousands except for share and per share data	2004	2003	2002
Net income (loss) applicable to common shareholders	$ (3,800)	$ (5,000)	$ 1,338
Common shares outstanding:			
Weighted average common shares used in computing basic net income (loss) per share	11,617,601	6,783,742	6,322,086
Plus incremental shares from assumed conversions:			
Convertible preferred stock			13,833
Stock options			11,464
Warrants			49,510
			74,807
Weighted average common shares used in computing diluted net income (loss) per share	11,617,601	6,783,742	6,396,893
Net income (loss) per common share:			
Basic	$ (0.33)	$ (0.74)	$ 0.21

Diluted	$ (0.33)	$ (0.74)	$ 0.21

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

However, the following shares were excluded from the calculation of net loss per share in the periods noted because their effects would have been anti-dilutive:

	2004	2003	2002
Convertible preferred stock	13,333	13,333	
Stock options	1,812,909	1,426,670	811,799
Warrants	900,049	1,460,994	318,797
	2,726,291	2,900,997	1,130,596

For the year ended December 31, 2002, the shares noted above were excluded from the calculation of diluted per share results because the exercise price of these options and warrants was greater than the average market price of the Company s common stock during the period.

Additionally, 238,989 shares issuable upon conversion of $4.4 million in convertible notes (as a result of meeting the first revenue threshold in the fourth quarter of 2003) issued in connection with the Company s acquisition of MedUnite in December 2002 are excluded from the calculation for years ended December 31, 2004 and 2003 because their effect would also be anti-dilutive.

(m) <u>Stock-based Compensation</u> ProxyMed applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations in accounting for its stock-based compensation plans. The Company measures compensation expense related to the grant of stock options and stock-based awards to employees (including independent directors) in accordance with the provisions of APB No. 25. In accordance with APB No. 25, compensation expense, if any, is generally based on the difference between the exercise price of an option, or the amount paid for an award, and the market price or fair value of the underlying common stock at the date of the award or at the measurement date for variable awards. Stock-based compensation arrangements involving non-employees are accounted for under SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS No. 123) as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148), under which such arrangements are accounted for based on the fair value of the option or award.

Under SFAS No. 123, as amended by SFAS No. 148, compensation cost for the Company s stock-based compensation plans would be determined based on the fair value at the grant dates for awards under those plans. The assumptions underlying the fair value calculations of the stock option grants are presented in Note 15 Management has completed an analysis of the weighted average duration (or actual life) of their stock options and concluded that as of 2004, the appropriate estimated life is 6 years. Had the Company adopted SFAS No. 123 in accounting for its stock option plans, the Company s consolidated net income (loss) and net income (loss) per share for the years ended December 31, 2004, 2003 and 2002 would have been adjusted to the pro forma amounts indicated as follows:

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

In thousands except for per share data	2004	2003	2002
Net income (loss) applicable to common shareholders, as reported	$ (3,800)	$ (5,000)	$ 1,338
Deduct: Total stock-based employee pro forma compensation expense determined under fair value based method for all awards, net of related tax effects (1)	(2,717)	(4,378)	(6,814)
Addback charges already taken for intrinsic value of options	115		
Pro forma net loss	$ (6,402)	$ (9,378)	$ (5,476)
Basic net income (loss) per common share:			
As reported	$ (0.33)	$ (0.74)	$ 0.21
Pro forma	$ (0.55)	$ (1.38)	$ (0.87)
Diluted net income (loss) per common share:			
As reported	$ (0.33)	$ (0.74)	$ 0.21
Pro forma	$ (0.55)	$ (1.38)	$ (0.87)
(1) The following ranges of assumptions were used in the calculation of pro forma compensation expense for the periods presented:			
Risk-free interest rate	3.8%-4.8%	3.4%-4.4%	3.9%-5.2%
Expected life	6 years	10 years	10 years
Expected volatility	75%-77%	81%	81%
Dividend yield	0%	0%	0%

(n) New Accounting Pronouncements In September 2004, the Financial Accounting Standards Board (FASB) issued EITF No. 04-8, Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share (EITF No. 04-8). EITF No. 04-8 addresses when the dilutive effect of contingently convertible debt instruments should be included in diluted earnings per share and requires that contingently convertible debt instruments are to be included in the computation of diluted earnings per share regardless of whether the market price or other trigger has been met. EITF No. 04-8 also requires that prior period diluted earnings per share amounts presented for comparative purposes be restated. EITF No. 04-8 is effective for reporting periods ending after December 15, 2004. As a result of the issuance of EITF No. 04-8, shares convertible from the Company s $13.1 million convertible notes may be required to be included in the calculation of earnings per share in periods of net income; however, the FASB has yet to reach a conclusion as to the effect of non market price triggers on earnings per share calculations in situations where the instrument contains only non-market price trigger, such as the Company s convertible notes, and therefore the impact to the Financial Statements is not determinable at this time.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

In December 2004, the FASB issued SFAS No. 123R, Shared-Based Payments (Revised 2004) . SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock-Based Compensation and supercedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and its related guidance. SFAS No. 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be estimated using option-pricing models adjusted for the unique characteristics of those instruments and will be recognized and expensed over the period which an employee is required to provide service in exchange for the award (usually the vesting period). Fair value is based on market prices (if those prices are publicly available). If not available, SFAS 123R does not specifically require the use of a particular model; however, the most common models are the Black-Scholes model and lattice (binomial) models. Additionally, modifications to an equity award after the grant date will require a compensation cost to be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the award immediately before the modification. The effective date of SFAS No. 123R is for interim and annual reporting periods beginning after June 15, 2005. The Company has not completed the process of evaluating the impact that will result from adopting FASB Statement No. 123R and is therefore unable to disclose the impact that adoption will have on its financial position and results of operations.

(2) Acquisition of Businesses

(a) PlanVista On March 2, 2004, the Company acquired all of the capital stock of PlanVista Corporation, a publicly-held company located in Tampa, Florida and Middletown, New York that provides medical cost containment and business process outsourcing solutions, including claims repricing services, for the medical insurance and managed care industries, as well as services for healthcare providers, including individual providers, preferred provider organizations and other provider groups, for 3,600,000 shares of ProxyMed common stock issued to PlanVista s shareholders. In addition, ProxyMed assumed debt and other liabilities of PlanVista totaling $46.4 million, and incurred $1.3 million in acquisition related expenses. The value of these shares was $59.8 million based on the average closing price of ProxyMed s common stock for the day of and the two days before and after the announcement of the definitive agreement on December 8, 2003 in accordance with EITF No. 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in Purchase Business Combination . Additionally, ProxyMed raised $24.1 million in a private placement sale of 1,691,227 shares of its common stock to various entities affiliated with General Atlantic Partners and Commonwealth Associates to partially fund repayment of PlanVista s debts and other obligations outstanding at the time of the acquisition. The acquisition enables the Company to offer a new suite of products and services, provide new end-to-end services, increase sales opportunities with payers, strengthen business ties with certain customers, expand technological capabilities, reduce operating costs and enhance its public profile.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The Company had previously entered into a joint marketing agreement with PlanVista for the sale of PlanVista s services in June 2003. As part of that agreement, PlanVista granted the Company a warrant to purchase 15% of the number of outstanding shares of PlanVista common stock on a fully-diluted basis as of the time of exercise for $1.95 per share. The warrant was exercisable immediately and expired in December 2003. The warrant was accounted for at its cost under Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock since it did not meet the conditions necessary to be accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . Upon expiration of the warrant in December 2003, the Company recorded an impairment loss in the amount $0.5 million (representing the initial value of the warrant, calculated using a Black Scholes model) which was reflected in other expense in the Company s consolidated statement of operations for the year ended December 31, 2003.

Following consummation of the acquisition, PlanVista s common stock was delisted from the Over the Counter Bulletin Board, and each share of PlanVista s outstanding common stock was cancelled and converted into the right to receive 0.08271 of a share of the Company s common stock and each holder of PlanVista series C preferred stock received 51.5292 shares of the Company s common stock in exchange for each share of PlanVista series C preferred stock, all of which represented approximately 23% of the Company s common stock on a fully converted basis. The holders of the Company s outstanding stock, options and warrants at the date of the acquisition of PlanVista retained approximately 77% of the Company after the acquisition.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

An allocation of the purchase price is as follows. All items are considered final except for the disputed New York State tax liability as discussed below:

In thousands	
Common stock issued	$ 59,760
Acquisition-related costs	1,328
Other adjustments	(642)
Total purchase price	60,446
Allocation of purchase price:	
Cash and cash equivalents	(782)
Accounts receivable, net	(9,470)
Other current assets	(381)
Property and equipment, net	(658)
Customer relationships	(24,600)
Provider network	(16,200)
Technology platforms	(1,180)
Other long-term assets	(360)
Accounts payable and accrued expenses	9,612
Income taxes payable	633
Notes payable, debt and other obligations	44,889
Other long-term liabilities	880
Goodwill	$ 62,829

As reported in the Company s Form 10-Q/A for the period ended March 31, 2004, the excess of the consideration paid over the estimated fair value of net assets acquired in the amount of $61.0 million was initially recorded as goodwill. Due to adjustments for settled pre-acquisition contingencies of $0.7 million, potential exposure of other pre-acquisition contingencies of $0.6 million, adjustments to accrued network fees of $0.4 million and other net adjustments of $0.1 million recorded after the initial recording of the transaction, the excess of the consideration paid over the estimated fair value of net assets acquired has increased by $1.8 million to $62.8 million. Of this amount, the Company has determined that $20.7 million is tax deductible goodwill.

The weighted average useful life of the customer relationships is approximately 12.0 years, the weighted average useful life of the provider network is 10.0 years, and the weighted average useful life of the technology platforms is 4.5 years. The valuation of PlanVista s provider network and technology platforms was based on management s estimates which included consideration of a replacement cost methodology. The value of the customer relationships was calculated on a discounted cash flow model.

Additionally, the Company reduced the purchase price by $0.6 million related to the marketing agreement with PlanVista from June 2003 (shown as other adjustments in the preceding purchase price allocation table). The results of PlanVista s operations have been included in the Company s consolidated financial statements since

March 2004 in its Transaction Services segment.

At the time of its acquisition by the Company, PlanVista was involved in various lawsuits and threatened litigation. To date, a significant number of these cases have been settled or dismissed and resulted in $0.7 million charged to goodwill and $0.2 million charged to expense in 2004. As of December 31, 2004, the unresolved pre-acquisition contingencies include: (i) a lawsuit filed against a former subsidiary of PlanVista for which the Company intends to vigorously defend itself but for which the Company has determined exposure to be in a range of $0.6 million to $1.6 million and has accrued $0.6 million at December 31, 2004; (ii) a disputed $2.8 million New York State tax liability; and (iii) a class action suit in which PlanVista is named defendant for which the Company is still evaluating the merits of the case and cannot yet draw a conclusion as to the outcome. In the case of the New York State tax dispute, any settlement paid would be charged to goodwill in accordance with EITF No. 93-7, Uncertainties Related to Income Taxes in a Purchase Business Combination .

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The issuance of the 3,600,000 shares of Company common stock to the PlanVista stockholders was registered under the Securities Act of 1933 pursuant to the Company s registration statement on Form S-4 (File No. 333-111024) (the Registration Statement) filed with the SEC and declared effective on February 2, 2004.

In connection with this transaction, on March 1, 2004, the Company s shareholders approved (1) an amendment to the Company s articles of incorporation to increase the total number of authorized shares of the Company s common stock from 13,333,333 shares to 30,000,000 shares; (2) the issuance of 1,691,227 shares of the Company s common stock at $14.25 per share in a private equity offering valued at $24.1 million (to retire debt of PlanVista and pay certain expenses associated with the merger); (3) the issuance of 3,600,000 shares of the Company s common stock in connection with the PlanVista merger; and (4) an amendment to the Company s 2002 Stock Option Plan to increase the total number of shares available for issuance from 600,000 to 1,350,000. Additionally, one director of PlanVista was appointed to the Company s board of directors to fill a vacancy left by a former ProxyMed director who resigned in February 2003.

All officers and employees of PlanVista, with the exception of PlanVista s Chief Financial Officer, continued employment with the Company. In May 2004, PlanVista s Chief Executive Officer announced his resignation and effective September 1, 2004, he became a consultant to the Company. Under the terms of this agreement, he is allowed to continue to vest in the stock options he received at the time of the acquisition of PlanVista (see Note 15).

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Additionally, certain officers, directors and employees of PlanVista were granted options to purchase an aggregate of 200,000 shares of ProxyMed common stock at an exercise price of $17.74 per share. Of these original options granted, 173,120 were to vest two-thirds on the first anniversary date of the grant and one-third on the third anniversary date of the grant. Since the exercise price was less than the market price as of the date of issuance, the Company is recording periodic non-cash compensation charges over the vesting period of the options based on the intrinsic value method. For the year ended December 31, 2004, the Company recorded a non-cash compensation charge of $0.1 million for these options. Subsequent to the original issuance of these options, 10,608 stock options have been cancelled due to separation of employment with the Company. In addition, 68,543 granted to the PlanVista s former Chief Executive Officer as a result of his resignation effective September 1, 2004 have been modified due to his change in employment status (see Note 15). The balance of 26,880 options was granted to PlanVista s former Chief Financial Officer in connection with a consulting arrangement with him. Fifty percent of these options vested immediately upon the change of control and 25% vest on each of the three month and six month anniversaries of the change in control. The Company recorded a charge of approximately $0.1 million in compensation expense associated with this grant in the three months ended March 31, 2004 utilizing a Black-Scholes model using the following assumptions: risk-free interest rate of 1.2%, expected life of 9 months, expected volatility of 42% and no dividend yield.

The following unaudited pro forma summary presents the consolidated results of operations of ProxyMed and PlanVista as if the acquisitions of these businesses had occurred on January 1, 2004 and on January 1, 2003. These pro forma results do not necessarily represent results that would have occurred if the acquisition had taken place on that date, or of results that may occur in the future.

In thousands except for per share data	2004	2003
Revenues	$ 95,914	$ 104,644
Cost of sales	$ 35,655	$ 40,867
Selling, general and administrative expenses	$ 50,373	$ 49,282
Operating income (loss)	$ (881)	$ 1,429
Interest expense, net	$ (2,227)	$ (2,064)
Net loss	$ (3,114)	$ (1,516)
Basic and diluted net loss per share of common stock	$ (0.25)	$ (0.13)

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(b) MedUnite   On December 31, 2002, the Company acquired all of the capital stock of MedUnite, Inc., a privately-held company founded by seven of the nation s largest health insurers to provide healthcare claims processing services, for $10.0 million in cash, $13.4 million in 4% convertible promissory notes, and acquisition-related and exit costs of $6.7 million (originally estimated at $8.3 million at December 31, 2002). The purchase price was allocated as follows:

In thousands	As Originally Reported	As Adjusted
Cash paid	$ 10,000	$ 10,000
Convertible debt issued	13,400	13,137
Acquisition-related and exit costs	8,321	6,700
Total purchase price	31,721	29,837
Allocation of purchase price:		
Cash	(879)	(879)
Other current assets	(3,805)	(3,770)
Property and equipment	(1,793)	(1,913)
Customer relationships	(6,600)	(6,600)
Purchased technology	(6,000)	(6,000)
Other long-term assets, including restricted cash	(1,033)	(1,033)
Current liabilities	9,515	9,638
Other long-term liabilities	1,233	1,057
Goodwill	$ 22,359	$ 20,337

The excess of the consideration paid over the estimated fair value of net assets acquired in the amount of $20.3 million was recorded as goodwill (originally recorded at $22.4 million at December 31, 2002), none of which is deductible for income tax purposes (see Note 14). The weighted average useful life of the customer relationships at acquisition was approximately 10 years and the weighted average useful life of the purchased technology is 4.2 years. The valuation of MedUnite s real-time processing platform was based on management s estimates which included consideration of utilizing a replacement cost methodology while the value of the customer relationships was calculated on a discounted cash flow model. The results of MedUnite s operations have been included in the Company s consolidated financial statements since January 1, 2003 in its Transaction Services segment.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The 4% convertible promissory notes are uncollateralized and mature on December 31, 2008. Interest is payable quarterly in cash in arrears. The notes were convertible into an aggregate of 731,322 shares of the Company s common stock (based on a conversion price of $18.323 per share which was above the traded fair market value of the Company s common stock at December 31, 2002) if the former shareholders of MedUnite achieve certain aggregate incremental revenue based targets over a baseline revenue of $16.1 million with the Company over the next three and one-half year period as follows: (i) one-third of the principal if incremental revenues during the measurement period from January 1, 2003 through June 30, 2004 are in excess of $5.0 million; (ii) one-third of the principal if incremental revenues during the measurement period from July 1, 2004 through June 30, 2005 are in excess of $12.5 million; and (iii) one-third of the principal if incremental revenues during the measurement period from July 1, 2005 through June 30, 2006 are in excess of $21.0 million. Amounts in excess of any measurement period will be credited towards the next measurement period; however, if the revenue trigger is not met for any period, the ability to convert that portion of the principal is lost. In the fourth quarter of 2003, the first revenue target was met.

Of the original $13.4 million in principal amount, $4.0 million was held in escrow until December 31, 2003 as a source for limited indemnification conditions of the acquisition. In the fourth quarter of 2003, the escrow agent accepted a claim of $0.4 million from ProxyMed. This claim was settled with the Company via a cash payment of $0.1 million (paid out of undistributed interest received) and an offset against the escrow of $0.3 million. As such, the Company recorded an adjustment to goodwill. The escrow was released on December 31, 2003 and convertible notes totaling $3.7 million were distributed to the former shareholders of MedUnite. The total amount of convertible notes as of December 31, 2004 is $13.1 million. Additionally, as a result of the reduction in principal, the notes are now convertible into 716,968 shares of the Company s common stock subject to achieving the revenue triggers.

MedUnite had incurred significant losses since its inception and was utilizing cash significantly in excess of amounts it was generating. As a result, at the time it was acquired by ProxyMed, there were substantial liabilities and obligations (both known and unknown at December 31, 2002) associated with the business. Subsequent to the acquisition by ProxyMed, MedUnite s senior management team was terminated along with approximately 20% of the general workforce in an effort to eliminate duplicative positions and control these costs. As a result of the workforce reduction, the company paid $2.2 million in severance which was recorded as an adjustment to goodwill.

As a result of the acquisition, all notes payable, convertible notes and related accrued interest to MedUnite s shareholders with a carrying value of $23.4 million (except for a $2.3 million note payable issued to NDCHealth Corporation (NDCHealth) in August 2001, plus $0.2 million of accrued interest on this note, and a $2.6 million note payable issued to NDC on December 31, 2002, together known as the NDCHealth Debt) were cancelled. Additionally, as part of the acquisition, NDCHealth released MedUnite from $4.0 million of the NDCHealth Debt and agreed to amend certain existing MedUnite agreements in favor of future relationships with ProxyMed to be entered into in good faith. The remaining $1.1 million was included in accrued expenses at December 31, 2002 and ultimately refinanced under the note payable described below in April 2003.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Additionally, during 2003, the Company was successful entering into financing agreements with certain major vendors of MedUnite as a means to settle $5.4 million in liabilities that existed at December 31, 2002. In March 2003, the Company restructured $3.4 million in accounts payable and accrued expenses acquired from MedUnite and outstanding at December 31, 2002 to one vendor by paying $0.8 million in cash and financing the balance of $2.6 million with an unsecured note payable over 36 months at 8% commencing March 2003. Additionally, in April 2003, the Company financed a net total of $2.0 million ($2.8 million in accounts payable and accrued expenses offset by $0.8 million in accounts receivable) existing at December 31, 2002 from MedUnite to NDCHealth by issuing an unsecured note payable over 24 months at 6%.

Prior to its acquisition by ProxyMed, in April 2002, MedUnite had entered into a three-year information technology services agreement to outsource certain hosting, system maintenance and operation services. Actual service fees are based on the number of transactions processed by the software being supported; however, MedUnite was committed to pay a minimum annual service fee of $1.2 million. The Company cancelled this agreement in May 2003 and paid a total of $1.1 million in July 2003.

At the time MedUnite was acquired by ProxyMed, the Company decided to migrate off of a software license used to operate MedUnite s web portal. At that time, the Company was liable to purchase software maintenance services from the supplier of that license in the total amount of $1.8 million through mid-2005. Such amount was included in the acquisition-related accrual for the MedUnite acquisition at December 31, 2002. However, the Company reached agreement with the software vendor and settled this obligation for $0.9 million. Payments of $0.7 million were made in 2003 and the balance of $0.2 million was paid in January 2004.

PROXYMED, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(3) Sale of Assets

On June 30, 2004, the Company sold certain assets and liabilities of its Laboratory Communication Solutions segment that were used in its non-core contract manufacturing business to an entity formed by a former executive of the Company for $4.5 million in cash. Under terms of the sale agreement, the Company received $3.5 million in cash at closing and received the balance of $1.0 million in cash in July and August 2004 upon presentation of final accounting.

The Company believes the divested manufacturing assets were not a component of an entity because the operations and cash flows could not be clearly distinguished, operationally and for fi