

PROXYMED INC /FT LAUDERDALE/  
Form 10-Q  
May 10, 2007

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **March 31, 2007**

**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**

(State or Other Jurisdiction of  
Incorporation or Organization)

**65-0202059**

(I.R.S. Employer  
Identification No.)

**1854 Shackleford Court, Suite 200, Norcross.**

**Georgia**

(Address of Principal Executive Offices)

**30093**

(Zip Code)

**(770) 806-9918**

(Registrant's Telephone Number Including Area Code)

\_\_\_\_\_  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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Indicate by check mark whether registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). [ ] Yes [X] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date:

**Common Stock, \$0.001 Par Value**  
**13,210,188 Shares as of May 7, 2007**

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|  |                  |                  |
|--|------------------|------------------|
| Convertible notes  | 13,137           | 13,137           |
| Other long-term debt   | 3,470            | 3,992            |
| Long-term portion of capital leases  | 1,107            | 1,296            |
| Long-term deferred revenue and other long-term liabilities   | 510              | 645              |
| <b>Total liabilities</b>   | <b>45,992</b>    | <b>44,816</b>    |
| Stockholders' equity:  |                  |                  |
| Series C 7% Convertible Preferred Stock \$\$.01 par value. Authorized 300,000 shares; issued 253,265 shares; outstanding 2,000; liquidation preference \$100 |                  |                  |
| Common Stock \$.001 par value. Authorized 30,000,000 shares; issued and outstanding 13,210,188, and 13,210,188 shares, respectively                          | 14               | 14               |
| Additional paid-in capital   | 243,649          | 243,387          |
| Accumulated deficit  | (238,170)        | (215,977)        |
| <b>Total stockholders' equity</b>  | <b>5,493</b>     | <b>27,424</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 51,485</b> | <b>\$ 72,240</b> |

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

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**PROXYMED, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**(unaudited)**  
**(amounts in thousands except for share and per share data)**

|  | Three Months Ended March 31, |           |
|--|------------------------------|-----------|
|  | 2007                         | 2006      |
| <b>Net revenues:</b>   |                              |           |
| Transaction fees, cost containment services and license fees | \$ 13,057                    | \$ 15,575 |
| Communication devices and other tangible goods               | 1,939                        | 2,500     |
|  | 14,996                       | 18,075    |
| <b>Costs and expenses:</b>                                   |                              |           |

|   |                 |                |
|---|-----------------|----------------|
| Cost of transaction fees, cost containment services and license fees, excluding depreciation and amortization | 3,114           | 4,334          |
| Cost of laboratory communication devices and other tangible goods, excluding depreciation and amortization    | 1,071           | 1,503          |
| Selling, general and administrative expenses  | 10,798          | 11,463         |
| Depreciation and amortization   | 1,807           | 1,662          |
| Write-off of impaired assets  | 19,449          | -              |
|   | <u>36,239</u>   | <u>18,962</u>  |
| Operating loss  | (21,243)        | (887)          |
| Interest expense, net   | 953             | 686            |
|   | <u>(22,196)</u> | <u>(1,573)</u> |
| Loss before income taxes  | (22,196)        | (1,573)        |
| Provision for income taxes  | □               | □              |
|   | <u>(22,196)</u> | <u>(1,573)</u> |
| Net loss  | \$ (22,196)     | \$ (1,573)     |
| Basic and diluted weighted average shares outstanding   | 13,210,188      | 13,203,702     |
| Basic and diluted loss per share  | \$ (1.68)       | \$ (0.12)      |

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

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**PROXYMED, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(unaudited)**  
**(amounts in thousands)**

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2007</b>                         | <b>2006</b> |
| <b>Cash flows from operating activities:</b>                                |                                     |             |
| Net loss  | \$ (22,196)                         | \$ (1,573)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                     |             |
| Depreciation and amortization   | 1,807                               | 1,662       |
| Write-off of impaired assets  | 19,449                              | -           |
| Provision for obsolete inventory  | 9                                   | 7           |
| Non-cash interest expense   | 261                                 | 249         |
| Loss on disposal of fixed assets  | 3                                   | 9           |
| Share based compensation  | 265                                 | 257         |

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Changes in assets and liabilities, net  
of effect

|   |          |          |
|---|----------|----------|
| of acquisitions and dispositions:                                   |          |          |
| Accounts receivable and other<br>receivables                        | (88)     | (246)    |
| Inventory   | (174)    | 115      |
| Other assets  | (281)    | (421)    |
| Accounts payable, accrued<br>expenses and other current liabilities | (923)    | (2,664)  |
| Deferred revenue  | (95)     | 6        |
| Income taxes payable  | (164)    | (150)    |
| Other, net  | (134)    | (97)     |
|   | <hr/>    | <hr/>    |
| Net cash used in<br>operating activities                            | (2,261)  | (2,846)  |
|   | <hr/>    | <hr/>    |
| Cash flows from investing activities:                               |          |          |
| Acquisition of businesses, net of cash<br>acquired                  | □        | (225)    |
| Capital expenditures  | (279)    | (442)    |
| Capitalized software  | (192)    | (186)    |
| Proceeds from sale of fixed assets                                  | □        | 4        |
|   | <hr/>    | <hr/>    |
| Net cash used<br>in investing activities                            | (471)    | (849)    |
|   | <hr/>    | <hr/>    |
| Cash flows from financing activities:                               |          |          |
| Draws on line of credit   | 14,063   | 14,539   |
| Repayments of line of credit  | (10,733) | (14,046) |
| Debt issuance costs   | □        | (145)    |
| Payment of notes payable, long-term<br>debt and capital leases      | (838)    | (350)    |
|   | <hr/>    | <hr/>    |
| Net cash provided<br>by (used in) financing activities              | 2,492    | (2)      |
|   | <hr/>    | <hr/>    |
| Net decrease in cash and cash<br>equivalents                        | (240)    | (3,697)  |
| Cash and cash equivalents at beginning<br>of period                 | 682      | 5,546    |
|   | <hr/>    | <hr/>    |
| Cash and cash equivalents at end of<br>period                       | \$ 442   | \$ 1,849 |
|   | <hr/>    | <hr/>    |

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

**ProxyMed, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

(1) Summary of Significant Accounting Policies

- a) Basis of Presentation □ The accompanying unaudited consolidated financial statements of ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions (□MedAvant,□ □our,□ □we,□ □us,□ or □t Company□) and the notes thereto have been prepared in accordance with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the □SEC□) and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. However, such information reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim periods.

The unaudited results of operations for the three months ended March 31, 2007, are not necessarily indicative of the results to be expected for the full year. The unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 15, 2007 (□10-K□).

- b) Going Concern □ Over the last several years we have experienced declining revenues, recurring losses from operations and have limitations on our access to capital. Our working capital deficit was approximately \$9.6 million and our accumulated deficit was approximately \$238.2 million at March 31, 2007. The Company had availability under its revolving credit facility of approximately \$4.5 million at December 31, 2006, approximately \$1.3 million at March 31, 2007, and approximately \$1.5 million as of May 7, 2007.

We closely monitor our liquidity, capital resources and financial position on an ongoing basis, and we are continuing our efforts to reduce costs and increase revenues through new product launches and expanded relationships with certain customers. In addition, we are reviewing several strategic and operational initiatives that we believe would reverse some of these negative trends and also address our current liquidity issues. These initiatives include a review of strategic assets, certain product offerings and additional cost cutting initiatives while continuing efforts to seek additional sources of long-term financing. We are hiring proven veterans of our industry□s sales force because we believe that revenue growth through new sales is an essential part of our future success.

At the same time, we are finding ways to achieve greater efficiencies and reductions in operating expenses. The Phoenix<sup>SM</sup> platform, for example, is yielding significant benefits to our internal processes and workflows much like it has for our EDI customers. Accordingly, at or about the time of filing this Form 10-Q we expect to implement reductions to our operating expenses consistent with our streamlined model.

- c) Revenue Recognition □ Revenue is derived from our Transaction Services and Laboratory Communication Solutions segments.

Revenues in our Transaction Services segment are recorded as follows:

- For revenues derived from insurance payers, pharmacies and submitters, such revenues are recognized on a per transaction basis or flat fee basis in the period the services are rendered.

- Revenue from our medical cost containment business is recognized when the services are performed and are recorded net of estimated allowances. These revenues are primarily in the form of fees generated from discounts we secure for payers that access our provider network.
- Revenues associated with revenue sharing agreements are recorded as gross revenue on a per transaction basis or a percentage of revenue basis and may involve increasing amounts or percentages based on transaction or revenue volumes achieved. This treatment is in accordance

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with Emerging Issues Task Force Consensus No. 99-19,  Reporting Revenue Gross as a Principal Versus Net as an Agent.

- Revenue from certain up-front fees is recognized ratably over the term of the contract. This treatment is in accordance with Staff Accounting Bulletin No. 104,  Revenue Recognition  ( SAB 104 ).
- Revenue from support and maintenance contracts is recognized ratably over the contract period.

Revenues in our Laboratory Communication Solutions segment are recorded as follows:

- Revenue from support and maintenance contracts is recognized ratably over the contract period.
- Revenue from the sale of inventory and manufactured goods is recognized when the product is delivered, price is fixed or determinable, and collectibility is probable. This treatment is in accordance with SAB No. 104.
- Revenue from the rental of laboratory communication devices is recognized ratably over the period of the rental contract.

- d) Allowance for Doubtful Accounts/Revenue Allowances/Bad Debt Estimates  We rely on estimates to determine revenue adjustments and the adequacy of our allowance for doubtful accounts receivable. These estimates are based on our historical experience and the industry in which we operate. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Additionally, in our Transaction Services segment, we evaluate the collectibility of our accounts receivable based on a combination of factors, including historical collection ratios.

In circumstances where we are aware of a specific customer's inability to meet its financial obligations, we record a reserve for doubtful accounts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize 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.

- e) Net Loss per Share □ Basic net loss per share of our Common Stock is computed by dividing net loss by the weighted average shares of Common Stock outstanding during the period. Diluted net loss per share reflects the potential dilution from the exercise or conversion of securities into our Common Stock; however, the following shares were excluded from the calculation of diluted net loss per share because their effects would have been anti-dilutive:

|  | Three months ended March 31, |                     |
|--|------------------------------|---------------------|
|  | (unaudited)<br>2007          | (unaudited)<br>2006 |
| <b>Common Stock excluded in the computation of net loss per share:</b> |                              |                     |
| Convertible preferred stock  | 13,333                       | 13,333              |
| Convertible notes payable  | 238,989                      | 238,989             |
| Stock options  | 1,786,426                    | 1,705,643           |
| Warrants   | 13,333                       | 857,215             |
|  | 2,052,081                    | 2,815,180           |

- f) Share-Based Compensation □ We account for stock-based awards under SFAS 123(R) using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest.

The fair value of stock is determined using a lattice valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our

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current estimates. We recognized approximately \$265,000 and \$257,000 in share-based compensation expense for the three months ended March 31, 2007 and 2006.

- g) New Accounting Pronouncements □ The Company adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, or FIN 48, □Accounting for Uncertainty in Income Taxes,□ effective January 1, 2007. FIN 48 is an interpretation of Statement of Financial Accounting Standards No. 109, □Accounting for Income Taxes,□ which seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. Adoption of FIN 48 had no cumulative effect on the Company□s



As a result of the Company's continuing revenue and stock price declines during the first quarter of 2007, the Company performed an interim goodwill impairment test as of March 31, 2007. In accordance with the provisions of SFAS No. 142, the Company used a discounted cash flow analysis which indicated that the book value of the Transaction Services segment exceeded its estimated fair value and that goodwill impairment had occurred. Step 2 of this impairment test, as prescribed by SFAS 142, led us to conclude that an impairment of goodwill had occurred. In addition, as a result of the goodwill analysis, the Company assessed whether there had been an impairment of the Company's long-lived assets in accordance with SFAS No. 144. This impairment analysis indicated that the carrying value of certain finite-lived intangible assets was greater than their expected undiscounted future cash flows. Therefore, the Company concluded

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that these intangible assets were impaired and adjusted the carrying value of these assets to fair value. Accordingly, the Company recorded a non-cash impairment charge of \$19.4 million for the three months ended March 31, 2007 in its Transaction Services Segment. This charge included a \$12.5 million impairment of goodwill and a \$6.9 million impairment of certain other intangibles.

For March 31, 2007, we recorded no impairment charge in our Laboratory Communications Solutions segment.

The changes in the carrying amounts of goodwill, net, for the period ending March 31, 2007 by operating segment are as follows:

| In thousands                             | Transaction<br>Services | Laboratory<br>Communications<br>Solutions | Total     |
|--|-------------------------|---|-----------|
| Balance as of December 31, 2006          | \$ 24,378               | \$ 2,102                                  | \$ 26,480 |
| Impairment charge                        | (12,508)                | -   | (12,508)  |
| Balance as of March 31, 2007 (unaudited) | \$ 11,870               | \$ 2,102                                  | \$ 13,972 |

The following table summarizes the changes in our other intangibles for the three months ended March 31, 2007.

| (In thousands) | Other<br>Intangibles<br>Balance as of<br>December 31,<br>2006 | Additions | Amortization<br>Expense | Impairment<br>Charge | Other<br>Intangibles<br>Balance as<br>of<br>March 31,<br>2007<br>(unaudited) |
|----------------|---|-----------|-------------------------|----------------------|--|
|                | 2006  |           |                         |                      |  |

|                        |                  |               |                   |                   |                  |
|------------------------|------------------|---------------|-------------------|-------------------|------------------|
| Capitalized software   | \$ 2,257         | \$ 109        | \$ (136)          | \$ -              | \$ 2,230         |
| Purchased technology   | 2,177            | 83            | (349)             | -                 | 1,911            |
| Customer relationships | 6,768            | -             | (286)             | (6,482)           | -                |
| Provider network       | 8,500            | -             | (341)             | (459)             | 7,700            |
|                        | <u>\$ 19,702</u> | <u>\$ 192</u> | <u>\$ (1,112)</u> | <u>\$ (6,941)</u> | <u>\$ 11,841</u> |

The estimates of useful lives of other intangible assets are based on historical experience, the industry in which we operate, or on contractual terms. Other intangible assets are being amortized on a straight-line basis. Amortization expense was \$1.1 million and \$1.0 million for the three months ended March 31, 2007 and 2006, respectively.

As of March 31, 2007, estimated future amortization of other intangible assets is as follows:

In thousands (unaudited)

|                              |                  |
|------------------------------|------------------|
| 2007 (remainder of the year) | \$ 2,806         |
| 2008                         | 3,007            |
| 2009                         | 1,974            |
| 2010                         | 1,365            |
| 2011                         | 1,365            |
| 2012                         | 900              |
|                              | <u>\$ 11,417</u> |

(4) Debt Obligations

- (a) Revolving Credit Facility and Term Debt - On December 7, 2005, we and certain of our wholly-owned subsidiaries, entered into a security and purchase agreement (the "Loan Agreement") with Laurus Master Fund, Ltd. ("Laurus") to provide up to \$20.0 million in financing to us.

Under the terms of the Loan Agreement, Laurus extended financing to us in the form of a \$5.0 million secured term loan (the "Term Loan") and a \$15.0 million secured revolving credit facility (the "Revolving Credit Facility"). The Term Loan has a stated term of five (5) years and will accrue interest at Prime plus 2%, subject to a minimum interest rate of 8%. The Term Loan is payable in equal monthly principal installments of approximately \$89,300 plus interest until the maturity date on December 6, 2010. The Revolving Credit Facility has a stated term of three (3) years and will accrue interest at the 90 day LIBOR rate plus 5%, subject to a minimum interest rate of 7%, and a maturity date of December 6, 2008 with two (2) one-year extension-options at the discretion of Laurus. Additionally, in connection with the Loan Agreement, we issued 500,000 shares

of our Common Stock, par value \$0.001 per share (the "Closing Shares") to Laurus that were valued at approximately \$2.4 million at the time of issuance. As of March 31, 2007, we had approximately \$1.3 million of borrowing capacity on our revolving credit facility.

We granted Laurus a first priority security interest in substantially all of our present and future tangible and intangible assets (including all intellectual property) to secure our obligations under the Loan Agreement. The Loan Agreement contains various customary representations and warranties of us as well as customary affirmative and negative covenants, including, without limitation, liens of property, maintaining specific forms of accounting and record maintenance, and limiting the incurrence of additional debt. The Loan Agreement does not contain restrictive covenants regarding minimum earning requirements, historical earning levels, fixed charge coverage, or working capital requirements. We can borrow up to three times the trailing 12-months of historical earnings, as defined in the agreement. Per the Loan Agreement, we are required to maintain a lock box arrangement wherein monies received by us are automatically swept to repay the loan balance on the revolving credit facility.

The Loan Agreement also contains certain customary events of default, including, among others, non-payment of principal and interest, violation of covenants, and in the event we are involved in certain insolvency proceedings. Upon the occurrence of an event of default, Laurus is entitled to, among other things, accelerate all obligations. In the event Laurus accelerates the loans, the amount due will include all accrued interest plus 120% of the then outstanding principal amount of the loans being accelerated as well as all unpaid fees and expenses of Laurus. In addition, if the Revolving Credit Facility is terminated for any reason, whether because of a prepayment or acceleration, there shall be paid an additional premium of up to 5% of the total amount of the Revolving Credit Facility. In the event we elect to prepay the Term Loan, the amount due shall be the accrued interest plus 115% of the then outstanding principal amount of the Term Loan. Due to certain subjective acceleration clauses contained in the agreement and a lockbox arrangement, the revolving credit facility is classified as current in the accompanying unaudited consolidated balance sheet.

- (b) Convertible Notes □ On December 31, 2002, we issued \$13.4 million of 4% uncollateralized convertible promissory notes to the former shareholders of MedUnite as part of the consideration paid in the acquisition of MedUnite. These notes mature on December 31, 2008. Interest is payable quarterly in cash in arrears. The notes were convertible into 716,968 shares, based on a conversion price of \$18.323 per share.

Convertibility was dependent upon certain revenue targets being met. During the measurement period, only the first revenue target was achieved, therefore, one-third of the outstanding shares will remain convertible until December 31, 2008. The total amount of convertible notes as of March 31, 2007, and December 31, 2006, is \$13.1 million. The notes are now convertible into 238,989 shares of our Common Stock.

- (c) Notes Payable □ On October 10, 2006, the Company signed two \$1.0 million notes payable in conjunction with its acquisition of MRL. The notes payable accrue interest at 7% and are payable in 24 equal monthly installments of principal and interest of approximately \$0.1

million, beginning in November 2006.

(5) Equity Transactions

During the three months ended March 31, 2007, we granted 76,929 stock options, at exercise prices between \$2.92 and \$5.65 per share to officers, directors, and employees. Such options are for ten-year terms and generally vest over four years following the date of the grant. During the three months ended March 31, 2007, no employee stock options were exercised, and 60,420 stock options were cancelled.

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(6) Segment Information

As defined in SFAS 131, "Disclosures About Segments of an Enterprise and Related Information", we have two operating segments: Transaction Services and Laboratory Communications. Basic differences in products, services and customer bases underlie our decision to report these two separate segments. Transaction Services focuses on electronic exchanges of information between healthcare providers and payers, whether through our EDI platform or PPO network. Technology, such as our Phoenix platform, plays an essential role in operations and serving our Transaction Services customers. Laboratory Communication Solutions produces equipment that facilitates results reporting between laboratories and healthcare providers. Therefore, the operating environment is different as is the management perspective. Besides having different customers than Transaction Services, Laboratory Communications' revenue structure is different than Transaction Services. In addition to selling or leasing the communication equipment, Laboratory Communications provides support services under maintenance agreements post sale. Transaction Services generally recognizes revenue when transactions are processed for a customer.

Our segment reporting includes revenue and expense by each operating unit, including depreciation and amortization. Because our financing, particularly the debt, is negotiated and secured on a consolidated basis, our segment reporting does not allocate interest expense (or interest income) by reportable segment.

Three Months Ended March 31,

|                                    | (Unaudited)<br>2007 | (Unaudited)<br>2006 |
|------------------------------------|---------------------|---------------------|
|                                    | (In thousands)      |                     |
| Net revenues by operating segment: |                     |                     |
| Transaction Services               | \$ 12,410           | \$ 15,132           |
| Laboratory Communication Solutions | 2,586               | 2,943               |

|  |    |                |    |                   |
|--|----|----------------|----|-------------------|
|  | \$ | 14,996         | \$ | 18,075            |
|  |    |                |    |                   |
| Operating income (loss)<br>by operating segment: |    |                |    |                   |
| Transaction Services                             | \$ | (21,849)       | \$ | (1,473)           |
| Laboratory                                       |    |                |    |                   |
| Communication Solutions                          |    | 606            |    | 586               |
|  |    |                |    |                   |
|  | \$ | (21,243)       | \$ | (887)             |
|  |    |                |    |                   |
|  |    | March 31, 2007 |    | December 31, 2006 |
|  |    |                |    |                   |
| Total assets by operating<br>segment:            |    |                |    |                   |
| Transaction Services                             | \$ | 35,955         | \$ | 57,145            |
| Laboratory                                       |    |                |    |                   |
| Communication Solutions                          |    | 15,530         |    | 15,095            |
|  |    |                |    |                   |
|  | \$ | 51,485         | \$ | 72,240            |
|  |    |                |    |                   |

(7) Income Taxes

As of March 31, 2007, we had a net deferred tax asset of approximately \$113.5 million, which was fully offset by a valuation allowance due to cumulative losses in recent years. Realization of the net deferred tax asset is dependent upon us generating sufficient taxable income prior to the expiration of the federal net operating loss carryforwards. We will adjust this valuation reserve if, during future periods, management believes we will generate sufficient taxable income to realize the net deferred tax asset.

(8) Commitments and Contingencies

- (a) Litigation □ We were named as a defendant in an action filed in July 2006, in the United States District Court of New Jersey by MedAvante, Inc., (□MedAvante□). MedAvante claimed that our use of the names □MedAvant□ and □MedAvant Healthcare Solutions□ infringed trademark rights allegedly held by

MedAvante. MedAvante sought unspecified compensatory damages and injunctive relief. On February 12, 2007, the District Court issued a settlement order. The specific terms of the proposed Settlement and Release Agreement are currently being negotiated, but the total value of the settlement is expected to be approximately \$1.3 million, of which \$1.0 million will be covered by insurance proceeds. We have accrued a preliminary estimate of \$0.3 million (net of expected insurance proceeds) based upon these negotiations.

From time to time, we are a party to other legal proceedings in the course of our business. We, however, do not expect such other legal proceedings to have a material adverse effect on our business or financial condition.

- (b) Employment Agreements We entered into employment agreements with certain executives and other members of management that provide for cash severance payments if these employees are terminated without cause. Our aggregate commitment under these agreements is \$1.0 million at March 31, 2007.

(9) Supplemental Disclosure of Cash Flow Information

Cash paid for interest was \$0.7 million for the quarter ended March 31, 2007, and \$0.4 million for the quarter ended March 31, 2006. During the three months ended March 31, 2007, and March 31, 2006, the Company made income tax payments to the state of New York in the amounts of \$0.2 million and \$0.2 million, respectively.

(10) Subsequent Event

On April 30, 2007, we executed an agreement for the sale of our pharmacy transaction processing business for \$0.5 million, consisting of \$0.4 million in cash received at closing and \$0.1 million held in escrow to be received on or about October 29, 2007. In connection with this transaction, we were released from a contingent obligation to pay up to \$10 million to the pharmacy transaction business' former owner. See Note 15 in the Notes to Consolidated Financial Statements of our Form 10-K for the year ended December 31, 2006.

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## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Management's discussion and analysis of financial condition and results of operations (MD&A) is provided as a supplement to ProxyMed, Inc.'s (ProxyMed, MedAvant, our, us, we, or the Company) consolidated financial statements in this Form 10-Q and notes thereto and to the audited consolidated financial statements and the notes thereto including our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (SEC) on March 15, 2007. Unless the context otherwise requires, all references to we, our, us, Company, ProxyMed or MedAvant refer to ProxyMed, Inc., d/b/a MedAvant Healthcare Solutions, and its subsidiaries.

### Introduction

MedAvant Healthcare Solutions (MedAvant) is an information technology company that facilitates the exchange of medical claim and clinical information among doctors, hospitals, medical laboratories, pharmacies and insurance payers. MedAvant also enables the electronic transmission of laboratory results and prescription orders.

MedAvant is a trade name of ProxyMed, Inc. which was incorporated in 1989 in Florida. In December 2005, ProxyMed began doing business under the new operating name, MedAvant Healthcare Solutions, to unite all business units and employees under one brand identity. The new name was one of several results of a strategic analysis completed in the third quarter of 2005 following the acquisition of seven companies between 1997 and 2004.

Whether we are working with our 550,000 healthcare provider-customers, 42,000 pharmacies, 200 labs or 1,500 insurance payers, our goal is the same: provide the business intelligence necessary to expedite clinical and healthcare transactions. We make the transactions secure, faster, more accurate and more economical by using our processing platform known as Phoenix. With this real-time processing system, we provide visibility into an insurance claim's entire lifecycle, from the time the provider files it to the time the insurance payer reimburses the provider. That information provides data our customers use to improve their business efficiencies. The Phoenix platform is currently used at less than 40% of capacity; therefore, we can easily scale with future growth.

Management believes MedAvant is the nation's fourth largest claims processor and is among the top five independent Preferred Provider Organizations (PPO). Management believes we are the largest company that facilitates delivery of laboratory results, and we have several larger competitors in the electronic prescription delivery industry.

## Operating Segments

We operate two separately managed reportable segments: Transaction Services and Laboratory Communications. A description of these segments, their primary services and our source of revenue, in each, is as follows:

### Transaction Services

- *Processing claims.* The primary tool our customers use to process claims is a real-time web portal called myMedAvant, powered by our Phoenix platform. It offers standard and premium services with features such as verifying a patient's insurance, enrolling with payers, tracking a claim's progress with the payer and retrieving reports from payers. On average, we processed approximately 750,000 revenue-related transactions a day in 2006. Providers pay for claims processing based on either a flat monthly fee or a per-transaction fee.
- *Operating a PPO.* Our PPO is called the National Preferred Provider Network (NPPN<sup>TM</sup> or NPPN) and is accessed by more than 7,000,000 patients, 550,000 physicians, 4,000 acute care facilities and 90,000 ancillary care providers. We generate revenue primarily by charging participating payers a percentage of the savings they receive through NPPN. Because we operate a PPO, we can offer payers discounts on claims when a patient uses an out-of-network provider and we can negotiate non-discounted claims for

### Laboratory Communications

- *Printing Technology.* Our intelligent printing technology is integrated into printers for labs to purchase and install in physician offices. This allows for the secure transmittal of laboratory reports. Laboratories also purchase support, maintenance and monitoring programs to manage printers that

have our integrated technology.

- Pilot*. This patent-pending, web-enabled device sits in a provider's office and is used to transfer lab reports in virtually any format to a printer, a personal computer or a hand-held device. It integrates with most Practice Management Systems and usually saves the provider the cost of a dedicated phone line. Labs either purchase Pilot devices with an annual support program or they subscribe to Pilot with a program that includes support services.
- Fleet Management System (FMS)*. Labs use this online tool to monitor printers in provider offices and receive alerts for routine problems such as a printer being out of paper or having a paper jam. FMS can also be used to monitor printer inventory and schedule regular maintenance. Labs pay a monthly fee per printer to use FMS.

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## Results of Operations

### Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

(some percents may not foot due to rounding)

| (In thousands)                                       | (Unaudited)<br>Three Months Ended March 31, |                   |               |                   |                |               |
|--|---|-------------------|---------------|-------------------|----------------|---------------|
|  | 2007  | % of Net Revenues | 2006          | % of Net Revenues | Change \$      | Change %      |
| <b>Net revenues:</b>                                 |   |                   |               |                   |                |               |
| Transaction Services                                 | \$ 12,410                                   | 82.8%             | \$ 15,132     | 83.7%             | \$ (2,722)     | -18.0%        |
| Laboratory Communication Solutions                   | 2,586                                       | 17.2%             | 2,943         | 16.3%             | (357)          | -12.1%        |
|  | <u>14,996</u>                               | <u>100.0%</u>     | <u>18,075</u> | <u>100%</u>       | <u>(3,079)</u> | <u>-17.0%</u> |
| <b>Cost of sales:</b>                                |   |                   |               |                   |                |               |
| Transaction Services                                 | 2,948                                       | 19.7%             | 4,272         | 23.6%             | (1,324)        | -31.0%        |
| Laboratory Communication Solutions                   | 1,237                                       | 8.2%              | 1,565         | 8.7%              | (328)          | -21.0%        |
|  | <u>4,185</u>                                | <u>27.9%</u>      | <u>5,837</u>  | <u>32.3%</u>      | <u>(1,652)</u> | <u>-28.3%</u> |
| <b>Selling, general and administrative expenses:</b> |   |                   |               |                   |                |               |
| Transaction Services                                 | 10,117                                      | 67.5%             | 10,749        | 59.5%             | (632)          | -5.9%         |
| Laboratory Communication Solutions                   | 681   | 4.5%              | 714           | 4.0%              | (33)           | -4.6%         |

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|                                       |                    |                |                   |              |                    |                 |
|---------------------------------------|--------------------|----------------|-------------------|--------------|--------------------|-----------------|
|                                       | 10,798             | 72.0%          | 11,463            | 63.4%        | (665)              | -5.8%           |
| <b>Write-off of impaired assets:</b>  |                    |                |                   |              |                    |                 |
| Transaction Services                  | 19,449             | 129.7%         | -                 | 0.0%         | 19,449             | 100.0%          |
| Laboratory Communication Solutions    | -                  | 0.0%           | -                 | 0.0%         | -                  | 0.0%            |
|                                       | <u>19,449</u>      | <u>129.7%</u>  | <u>-</u>          | <u>0.0%</u>  | <u>19,449</u>      | <u>100.0%</u>   |
| <b>Depreciation and amortization:</b> |                    |                |                   |              |                    |                 |
| Transaction Services                  | 1,746              | 11.6%          | 1,584             | 8.8%         | 162                | 10.2%           |
| Laboratory Communication Solutions    | 61                 | 0.4%           | 78                | 0.4%         | (17)               | -21.8%          |
|                                       | <u>1,807</u>       | <u>12.0%</u>   | <u>1,662</u>      | <u>9.2%</u>  | <u>145</u>         | <u>8.7%</u>     |
| <b>Operating income (loss):</b>       |                    |                |                   |              |                    |                 |
| Transaction Services                  | (21,849)           | -145.7%        | (1,473)           | -8.1%        | (20,376)           | -1383.3%        |
| Laboratory Communication Solutions    | 606                | 4.0%           | 586               | 3.2%         | 20                 | 3.4%            |
|                                       | <u>(21,243)</u>    | <u>-141.7%</u> | <u>(887)</u>      | <u>-4.9%</u> | <u>(20,356)</u>    | <u>-2294.9%</u> |
| <b>Interest expense, net</b>          | <u>953</u>         | <u>6.4%</u>    | <u>686</u>        | <u>3.8%</u>  | <u>267</u>         | <u>38.9%</u>    |
| <b>Net loss</b>                       | <u>\$ (22,196)</u> |                | <u>\$ (1,573)</u> |              | <u>\$ (20,623)</u> |                 |

*Net Revenues.* Consolidated net revenues decreased \$3.1 million, or 17%, to \$15.0 million for the three months ended March 31, 2007 compared to \$18.1 million for the three months ended March 31, 2006.

Net revenues in our Transaction Services segment decreased by \$2.7 million, or 18%, for the three months ended March 31, 2007 compared to the same period in 2006. This decrease resulted primarily from lost customer volumes due to pricing pressures and increased direct customer connectivity to payers (\$2.1 million). Additionally, we experienced a drop in transaction services revenue due to the elimination of certain unprofitable product lines beginning in late 2005 and continuing into early 2006 (\$0.8 million). These decreases in revenue were partially offset by revenue generated by our recent acquisition of MRL (\$0.2 million). We do not expect revenues to reverse the declining trends which we have experienced during the year 2006, and the quarter ended March 31, 2007; yet we do expect that our revenues will not continue this 18% rate of decline, as mentioned above.

Laboratory Communication Solutions segment net revenues decreased by \$0.4 million, or 12%, for the three months ended March 31, 2007, compared to the same period last year. This decrease is due primarily to one of our largest customers postponing orders during the month of March due to their warehousing issues, and also the continued downturn in business from another of our largest customers. We do not expect revenues to reverse the declining trends which we have experienced during the year 2006, and the quarter ended March 31, 2007;

yet we do expect that our revenues will not continue this 12% rate of decline, as mentioned above.

*Cost of Sales.* Consolidated cost of sales decreased \$1.7 million, or 28%, to \$4.2 million, for the three months ended March 31, 2007 compared to \$5.8 million for the same period last year.

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The following table illustrates our cost of sales as a percentage of segment net revenues:

| (In thousands)                           | (Unaudited)<br>Three Months Ended March 31, |                                   |                  |                                   |
|--|---|-----------------------------------|------------------|-----------------------------------|
|  | 2007  | % of<br>Segment<br>Net<br>Revenue | 2006             | % of<br>Segment<br>Net<br>Revenue |
| <b>Cost of sales:</b>                    |   |                                   |                  |                                   |
| Transaction Services                     | \$ 2,948                                    | 23.8%                             | \$ 4,272         | 28.2%                             |
| Laboratory<br>Communication<br>Solutions | 1,237                                       | 47.8%                             | 1,565            | 53.2%                             |
|  | <u>\$ 4,185</u>                             | 27.9%                             | <u>\$ 5,837</u>  | 32.3%                             |
| <b>Gross margin:</b>                     |   |                                   |                  |                                   |
| Transaction Services                     | \$ 9,462                                    | 76.2%                             | \$ 10,860        | 71.8%                             |
| Laboratory<br>Communication<br>Solutions | 1,349                                       | 52.2%                             | 1,378            | 46.8%                             |
|  | <u>\$ 10,811</u>                            | 72.1%                             | <u>\$ 12,238</u> | 67.7%                             |

Cost of sales in our Transaction Services segment consists of EDI transaction fees, provider network access fees, services and license fees, third-party electronic transaction processing costs, certain telecommunication and co-location center costs, and revenue sharing arrangements with our business partners. Cost of sales decreased \$1.3 million, or 31%, to \$2.9 million, for the three months ended March 31, 2007, compared to \$4.3 million for the same period last year. Cost of sales as a percentage of segment net revenues improved to 24% during the period from 28% last year. This improvement was primarily due to the corresponding decrease in net revenues during the period (18%) coupled with the impact of our re-contracting with certain of our vendors during 2006. Gross margins on Transaction Services increased to 76% during the three months ended March 31, 2007, compared to 72% in the same period last year as management continues to focus on more profitable product lines.

Cost of sales in our Laboratory Communication Solutions segment includes hardware, third party software, consumable materials, direct manufacturing labor and indirect manufacturing overhead. Cost of sales decreased \$0.3 million to \$1.2 million for the three months ended March 31, 2007, compared to the same period in 2006. Cost of sales as a percentage of segment revenue decreased to 48% during the period, from 53% last year. This improvement was a result of an increased proportion of Pilot in our sales mix, which has higher margins, which in

this segment increased gross margins to 52% during the period, compared to 47% last year.

*Selling, General and Administrative Expenses (SG&A).* SG&A decreased for the three months ended March 31, 2007, by \$0.7 million, or 6%, to \$10.8 million from \$11.5 million for the three months ended March 31, 2006. SG&A expenses as a percentage of total net revenues increased to 72% for the three months ended March 31, 2007, from 63% in the same period last year. The number of our employees decreased to 333 at March 31, 2007, from 384 at March 31, 2006.

Transaction Services segment SG&A expenses decreased \$0.6 million, or 6%, to \$10.1 million for the three months ending March 31, 2007, compared to \$10.7 million for the same period last year. This decrease was primarily due to lower payroll expenses (\$1.0 million), resulting from our reduction in the number of employees, along with improved operational efficiencies and lower commissions (\$0.1 million). These were partially offset by increases in outside labor fees of \$0.3 million as we migrate our PPO operating business to ppoONE.

Laboratory Communication Solutions segment SG&A expenses remained flat at \$0.7 million for the three months ended March 31, 2007, as compared to the same period of 2006.

*Impairment Charges.* As a result of the Company's continuing revenue and stock price declines during the first quarter of 2007, the Company performed a goodwill impairment test as of March 31, 2007. In accordance with the provisions of SFAS No. 142, the Company used a discounted cash flow analysis which indicated that the book value of the Transaction Services segment exceeded its estimated fair value and that goodwill impairment had occurred. In addition, as a result of the goodwill analysis, the Company assessed whether there had been an impairment of the Company's long-lived assets in accordance with SFAS No. 144. The Company concluded that the book value of certain intangible assets was higher than their expected future cash flows and that impairment had occurred. In addition, the Company also reduced the remaining useful lives of its other intangible assets based on the foregoing analysis. Accordingly, the Company recorded a non-cash impairment charge of \$19.4 million for the three months ended March 31, 2007 in its Transaction Services Segment. This charge included a \$12.5 million impairment of goodwill and a \$6.9 million impairment of certain other intangibles.

For March 31, 2007, we recorded no impairment charge in our Laboratory Communications Solutions segment.

*Depreciation and Amortization.* Depreciation and amortization increased by \$0.1 million to \$1.8 million for the three months ended March 31, 2007, from \$1.7 million for the same period last year. This increase is primarily the result of our recent acquisition of MRL and our recent build out of our mirrored back up site in Texas.

*Operating Loss.* As a result of the foregoing, the combined operating loss for the three months ended March 31, 2007, was \$21.2 million compared to an operating loss of \$0.9 million for the same period last year.

*Interest Expense.* Net interest expense for the three months ended March 31, 2007, was \$1.0 million compared to \$0.7 for the same period last year. This increase in expense was primarily due to higher effective interest charges on our Laurus debt facility and increased borrowings. We anticipate that interest expense will increase as our borrowings on our revolving credit facility increase.

*Net Loss.* As a result of the foregoing, net loss for the three months ended March 31, 2007 and 2006, was \$22.2 million and \$1.6 million, respectively.

## Liquidity and Capital Resources

Over the last several years we have experienced declining revenues, recurring losses from operations and have limitations on our access to capital. Our working capital deficit was approximately \$9.6 million and our accumulated deficit was approximately \$238.2 million as of March 31, 2007. We had availability under our revolving credit facility of approximately \$4.5 million at December 31, 2006, approximately \$1.3 million at March 31, 2007, and approximately \$1.5 million as of May 7, 2007.

As a result of these items, our independent registered public accounting firm has issued a going concern opinion with respect to our consolidated financial statements for the year ended December 31, 2006.

We closely monitor our liquidity, capital resources and financial position on an ongoing basis, and we are continuing our efforts to reduce costs and increase revenues through new product launches and expanded relationships with certain customers. In addition, we are reviewing several strategic and operational initiatives that we believe would reverse some of these negative trends and also address current liquidity issues. These initiatives include a review of our strategic assets (including the sale of our pharmacy transaction business line on April 30, 2007), certain product offerings and additional cost cutting initiatives while continuing efforts to seek additional sources of long-term financing. We are hiring proven veterans of our industry's sales force because we believe that revenue growth through new sales is an essential part of our future success.

At the same time we are finding ways to achieve greater efficiencies and reductions in operating expenses. The Phoenix platform, for example, is yielding significant benefits to our internal processes and workflows much like it has for our EDI customers. Accordingly, at or about the time of filing this Form 10-Q we expect to implement reductions to our operating expenses consistent with our streamlined model.

We believe that we will have sufficient cash and cash equivalents on hand or available to us under our credit facility to fund our operations and capital requirements through 2007. Management has discretion over its capital expenditures, and will continue to evaluate the Company's cost structure and asset base, in order to remain solvent. Management will also focus upon revenue growth, and balancing the relationship between maximizing cash realizations of receivables, and also to manage committed expenditures. If we require additional funding in the future to satisfy any of our outstanding future obligations or to further our strategic plans, there can be no assurance that any additional funding will be available to us, or if available, that it will be available on acceptable terms. If we are successful in obtaining additional financing, the terms of the financing may have the effect of significantly diluting or adversely affecting the holdings or the rights of the holders of our Common Stock. We believe that if we are not successful in obtaining additional financing for further product development or strategic acquisitions, such inability may adversely impact our ability to successfully execute our business plan and may put us at a significant competitive disadvantage.

During the three months ended March 31, 2007, net cash used by operating activities totaled \$2.3 million, related to our continued effort to pay down outstanding payables and accrued expenses during the first quarter of

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2007; and otherwise for our net loss from operations. Cash used by investing activities totaled \$0.5 million for the funding of capital expenditures related to our technical infrastructure and administrative systems, and capitalized development of internal systems. We anticipate that we will spend approximately \$750,000 on capital expenditures, including capitalized development costs, for the remainder of 2007. These capital expenditures may be deferred to future periods by management at its discretion. Cash provided by financing activities totaled \$2.5 million, consisting of drawings on our Laurus credit facility for the repayments of notes payable, payments of

other long-term debt, payments related to capital leases, and funding our net cash used by operating activities.

On December 7, 2005, we entered into a loan transaction with Laurus pursuant to which Laurus extended \$20 million in financing to us in the form of a \$5.0 million secured term loan and a \$15.0 million secured revolving credit facility. The term loan has a stated term of five (5) years and will accrue interest at Prime plus 2%, subject to a minimum interest rate of 8%. The term loan is payable in equal monthly principal installments of approximately \$89,300 plus interest until the maturity date on December 6, 2010. The revolving credit facility has a stated term of three (3) years, with two one-year extension options, and will accrue interest at the 90 day LIBOR rate plus 5%, subject to a minimum interest rate of 7%, and a maturity date of December 6, 2008. In connection with the Loan Agreement, we issued 500,000 shares of our Common Stock to Laurus. We also granted Laurus a first priority security interest in substantially all of our present and future tangible and intangible assets (including all intellectual property) to secure our obligations under the Loan Agreement. As of May 7, 2007, we had approximately \$1.5 million available on our revolving credit facility and cash available. Per the Loan Agreement, we are required to maintain a lock box arrangement wherein monies received by us are automatically swept to repay the loan balance on the revolving credit facility.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, but we believe that any variation in results would not have a material effect on our financial condition. We evaluate our estimates on an ongoing basis.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to Consolidated Financial Statements of our Form 10-K for the year ended December 31, 2006.

Revenue Recognition - Revenue is derived from our Transaction Services and Laboratory Communication Solutions segments.

Revenues in our Transaction Services segment are recorded as follows:

- For revenues derived from insurance payers, pharmacies, and submitters, such revenues are recognized on a per transaction basis or flat fee basis in the period the services are rendered.
- Revenue from our medical cost containment business is recognized when the services are performed and are recorded net of estimated allowances. These revenues are primarily in the form of fees generated from discounts we secure for payers that access our provider network.
- Revenues associated with revenue sharing agreements are recorded on a per transaction basis or a percentage of revenue basis and may involve increasing amounts or percentages based on transaction or revenue volumes achieved. This treatment is in accordance with Emerging Issues Task Force No. 99-19, □Reporting Revenue Gross as a Principal Versus Net as an Agent.□

- Revenue from certain up-front fees is recognized ratably over the contract's life. This treatment is in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB No. 104).

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- Revenue from support and maintenance contracts is recognized ratably over the contract period.

Revenues in our Laboratory Communication Solutions segment are recorded as follows:

- Revenue from support and maintenance contracts is recognized ratably over the contract period.
- Revenue from the sale of inventory and manufactured goods is recognized when the product is delivered, price is fixed or determinable, and collectibility is probable. This treatment is in accordance with SAB No. 104.
- Revenue from the rental of laboratory communication devices is recognized ratably over the period of the rental contract.

Capitalized Software Development and Research and Development □ Costs incurred internally and fees paid to outside contractors and consultants during the application development stage of our internally used software products are capitalized. 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 (included in "Selling, general and administrative expenses"). Application development stage costs generally include software configuration, coding, installation to hardware and testing. Once the project is completed, capitalized costs are amortized over their remaining estimated economic life. Our judgment is used in determining whether costs meet the criteria for immediate expense or capitalization. We periodically review projected cash flows and other criteria in assessing the impairment of any internal-use capitalized software and take impairment charges as needed.

Allowance for Revenue Adjustments/Doubtful Accounts/Bad Debt Estimates □ We rely on estimates to determine the revenue adjustments, bad debt expense and the adequacy of the allowance for doubtful accounts receivable. These estimates are based on our historical experience, including historical collection ratios, and the industry in which we operate. If the financial condition of a customer was to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required.

### **New Accounting Pronouncements**

The Company adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, or FIN 48, "Accounting for Uncertainty in Income Taxes," effective January 1, 2007. FIN 48 is an interpretation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. Adoption of FIN 48 had no cumulative effect on the Company's consolidated financial position at January 1, 2007. At March 31, 2007, the Company had no significant unrecognized tax benefits related to income taxes.

The Company's policy with respect to penalties and interest in connection with income tax assessments or related to unrecognized tax benefits is to classify penalties as provision for income taxes and interest as interest expense in its consolidated income statement.

The Company files income tax returns in the U.S. federal and several state jurisdictions. We believe that the Company is no longer subject to U.S. federal and state income tax examinations for years before 2003.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." SFAS No. 157 also expands disclosure requirements to include: (a) the fair value measurements of assets and liabilities at the reporting date, (b) segregation of assets and liabilities between fair value measurements based on quoted market prices and those based on other methods and (c) information that enables users to assess the method or methods used to estimate fair value when no quoted price exists. We are currently in the process of reviewing this guidance to determine its impact on our consolidated financial position and results of operations.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 will be effective in the first quarter of fiscal year 2008. We are currently assessing the potential impact that the adoption of SFAS No. 159 will have on our financial statements.

#### **Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**

Statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report contain information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements present our expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They frequently are accompanied by words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning. In particular, these include statements relating to: our ability to identify suitable acquisition candidates; our successful integration of any future acquisitions; our ability to successfully sell certain business units; our ability to successfully develop, market, sell, cross-sell, install and upgrade our clinical and financial transaction services and applications to new and current physicians, payers, medical laboratories and pharmacies; our ability to compete effectively on price and support services; our ability to increase revenues and revenue opportunities; and our ability to meet expectations regarding future capital needs and the availability of credit and other financing sources.

All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenues, synergies, accretion, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans and the anticipated timing of filings, approvals and closings relating to the merger or other planned acquisitions or dispositions; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Actual results may differ significantly from projected results due to a number of factors, including, but not limited to, the soundness of our business strategies relative to perceived market opportunities; our assessment of the healthcare industry's need, desire and ability to become technology efficient; market acceptance of our products and services; and our ability and that of our business associates to comply with various government

rules regarding healthcare information and patient privacy.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results and shareholder values may differ materially from those expressed in the forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. We refer you to the cautionary statements and risk factors set forth in the documents we file from time to time with the SEC, particularly our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 15, 2007. Shareholders are cautioned not to put undue reliance on any forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We expressly disclaim any intent or obligation to update any forward-looking statements.

### **Available Information**

MedAvant's Internet address is [www.medavanthealth.com](http://www.medavanthealth.com). MedAvant makes available free of charge on our through our Internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our stock is traded on the Nasdaq Global Market under the stock symbol "PILL."

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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We own no derivative financial instruments or derivative commodity instruments. We have no international sales and, therefore, we do not believe that we are exposed to material risks related to foreign currency exchange rates, or tax changes.

### **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon such evaluation, management has concluded that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms.

There have not been any changes in our internal control over financial reporting during the quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We were named as a defendant in an action filed in July 2006, in the United States District Court of New Jersey by MedAvante, Inc., (["MedAvante"]). MedAvante claimed that our use of the names ["MedAvant"] ["MedAvant Healthcare Solutions"] infringed trademark rights allegedly held by MedAvante. MedAvante sought unspecified compensatory damages and injunctive relief. On February 12, 2007, the District Court issued a settlement order. The specific terms of the proposed Settlement and Release Agreement are currently being negotiated, but the total value of the settlement is expected to be approximately \$1.3 million, of which \$1.0 million will be covered by insurance proceeds. The Company has accrued a preliminary estimate of \$0.3 million (net of expected insurance proceeds) based upon these negotiations.

From time to time, we are a party to other legal proceedings in the course of our business. We, however, do not expect such other legal proceedings to have a material adverse effect on our business or financial condition.

#### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the ["Risk Factors"] section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed on March 15, 2007.

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#### ITEM 6. EXHIBITS

The following exhibits are furnished or filed as part of this Report on Form 10-Q:

- 10.43 Employment Agreement dated March 22, 2007, by and between ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions, and Peter E. Fleming, III.
- 10.44 Purchase Agreement dated April 30, 2007, by and between SureScripts, LLC, and ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions.
- 10.45 Escrow Agreement dated April 30, 2007, by and among SureScripts, LLC, ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions, and SunTrust Bank.
- 10.46 Non-Competition Agreement dated April 30, 2007, by and between ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions, and SureScripts, LLC.
- 10.47 Letter of Termination, dated April 30, 2007, of Purchase Agreement, as amended, dated June 27, 1997, between Walgreen Co., and ProxyMed, Inc. d/b/a MedAvant Healthcare Solutions.
- 31.1 Certification by John G. Lettko, Chief Executive Officer, pursuant to Exchange Act Rules 13a-14 and 15d-14.
- 31.2 Certification by Gerard M. Hayden, Jr., Chief Financial Officer, pursuant to Exchange Act Rules 13a-14 and 15d-14.
- 32.1 Certification by John G. Lettko, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Gerard M. Hayden, Jr., Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PROXYMED, INC.**

Date: May 10,  
2007 By: /s/ John G. Lettko  
  
John G.  
Lettko  
Chief  
Executive Officer

Date: May 10,  
2007 By: /s/ Gerard M. Hayden, Jr.  
  
Gerard M.  
Hayden, Jr.  
Chief Financial  
Officer