ANNALY MORTGAGE MANAGEMENT INC
Form 8-K
February 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported)
February 9, 2006

Annaly Mortgage Management, Inc.
(Exact Name of Registrant as Specified in its Charter)

Maryland	1-13447	22-3479661
State or Other Jurisdiction Of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1211 Avenue of the Americas Suite 2902 New York, New York	10036
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 696-0100

No Change
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On February 9, 2006, Annaly Mortgage Management, Inc. issued a press release announcing its financial results for the quarter and year ended December 31, 2005. A copy of the press release is furnished as Exhibit 99.1 to this report.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

99.1 Press Release, dated February 9, 2006 issued by Annaly Mortgage Management, Inc.

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 hereunto duly authorized.

ANNALY MORTGAGE MANAGEMENT, INC.

By: /s/ Kathryn Fagan

Name: Kathryn Fagan
Title: Chief Financial Officer

Dated: February 9, 2006

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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 PlanVista and any other future acquisitions; 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; 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. These and other risk factors are more fully discussed starting on page 11 and elsewhere in this Form 10-K, which we strongly urge you to read.

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. 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.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

We own no derivative financial instruments or derivative commodity instruments. Revenue derived from international sales is transacted in U.S. Dollars, and therefore, we do not believe that we are exposed to material risks related to foreign currency exchange rates.

Concentration of Credit Risk

We have a concentration of credit risk in each of our two operating segments which is further disclosed in Note 15 to the financial statements.

Rate Risk

In the normal course of business, we are exposed to fluctuations in interest rates. We are establishing policies and procedures to manage this exposure through a variety of financial instruments. We will not enter into any contracts for the purpose of trading or speculation to manage this risk.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The consolidated financial statements and schedules are included beginning at Page F-1.

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ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

We have not had any disagreement with our accountants on accounting and financial disclosures during our two most recent fiscal years or any later interim period. We changed external auditors from PricewaterhouseCoopers, LLP to Deloitte & Touche LLP effective August 16, 2004.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures:

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

Changes in Internal Control

There have been no changes to our internal control over financial reporting that occurred during the fourth quarter of 2005, or subsequently, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management s Annual Report On Internal Control Over Financial Reporting:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f)/15d-15(f). Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, and effected by our Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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Management uses the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, to evaluate the effectiveness of our internal control over financial reporting. Management assessed our internal control over financial reporting using the COSO framework as of the end of our most recently completed fiscal year. Based on our evaluation under the framework in Internal Control Integrated Framework, we believe our internal control over financial reporting as of December 31, 2005 was effective. Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, which also audited our 2005 consolidated financial statements. Deloitte & Touche LLP s audit report on management s assessment of internal control over financial reporting is set forth herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting, that ProxyMed, Inc. and its subsidiaries (d/b/a MedAvant Healthcare Solutions) (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment we considered necessary in the circumstances. We believe that our audit provides a reasonable and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as basis for our opinions.

A company s internal control over financial reporting is a process designed by,or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2005 of the Company and our report dated March 14, 2006 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
March 14, 2006

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PART III

The information required in Item 10 (Directors and Officers of the Registrant) with the exception of the information required by Item 401 of Regulation of S-K, Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions), and Item 14 (Principal Accountant Fees and Services) is incorporated by reference to our definitive proxy statement for the 2006 Annual Meeting of Shareholders to be filed with the SEC.

Our directors and executive officers are as follows:

Name	Age	Position
Eric D. Arnson	34	Executive Vice President, Product Management
Cynthia Bird	51	Executive Vice President, Information Technology
William L. Bennett(1) (3)	56	Director
Christopher K. Carter	49	Executive Vice President, Sales and Account Management
Edwin M. Cooperman(2)	62	Director
Douglas J. O Dowd	40	Executive Vice President, Chief Financial Officer and Treasurer
Lonnie W. Hardin	50	Executive Vice President, Operations
Thomas E. Hodapp(1) (2) (3)	46	Director
Braden R. Kelly(2)	35	Director and Interim Chairman of the Board
John G. Lettko	48	Chief Executive Officer, President and Director
James H. McGuire(1)	62	Director
Kevin M. McNamara(4)	49	Chairman of the Board
Allison W. Myers	28	Executive Vice President, Human Resources
David E. Oles(4)	45	Executive Vice President, General Counsel and Secretary
Emily J. Pietrzak	29	Executive Vice President, Marketing and Communications
Eugene R. Terry(1) (3)	67	Director

(1) Member of the Audit Committee, the Chairman of which was Mr. Bennett. Mr. McGuire became an interim member in January 2006 upon the death of Mr. Bennett.

(2) Member of the Compensation Committee, the Chairman of which is Mr. Cooperman.

(3) Member of Nominating Committee, the Chairman of which is Mr. Terry.

(4) Resigned in January, 2006.

Eric D. Arnson joined us in December 1998 in conjunction with our acquisition of Key Communications Service, Inc. Mr. Arnson served as our Vice President and General Manager of Lab Services from January 2003 to August 2005. From August 2005 through present, he has served as our Executive Vice President, Product Management. From 1998 to 2003, Mr. Arnson held a number of positions within MedAvant including Product Manager, Vice President of Corporate Marketing and Vice President of Operations for Laboratory Services. Mr. Arnson holds a BS degree in marketing from the Indiana University School of Business.

William L. Bennett was appointed as one of our directors in March 2004 in connection with our acquisition of PlanVista. Mr. Bennett passed away on January 23, 2006. From January 1998 to March 2004, Mr. Bennett was the

Vice Chairman of the Board of PlanVista. Mr. Bennett served as the Chairman of the Board of PlanVista from December 1994 to December 1997 and had been a director since August 1994. From February 2000 to January 2006, Mr. Bennett was a partner and Director of Global Recruiting and Managing Director of Monitor Company Group, L.P., a strategy consulting firm and merchant bank. From May 1991 to May 2001, he was a director of Allegheny Energy, Inc., an electric utility holding company. Until March 1995, Mr. Bennett served as Chairman and Chief Executive officer of Noel Group, Inc., a publicly traded company that held controlling interests in small to medium-sized operating companies. Mr. Bennett was also a director of Sylvan, Inc., a publicly traded company that produces mushroom spawn and fresh mushrooms.

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Cynthia Bird joined us in July 2005 and currently serves as our Executive Vice President, Information Technology. From July 2002 to July 2005, Ms. Bird served as a consultant to Viewpointe, a bank consortium providing paper and electronic check processing, archival and image exchange services to the financial industry, and to IBM to interface with IBM Global Operations in support of all technology changes in the Viewpointe Archive Services environment. In 2000, Ms. Bird co-founded Bridge-IT, a telecommunications and business consulting firm in Chapel Hill, North Carolina, and served as its president until 2002. From 1986 to 1998, Ms. Bird served in her final capacity as Director of Business Development at Digital Equipment Corp., where she initiated outsourcing management services, managed operational engineering, directed international technical support and network management teams, and developed and implemented its global video teleconferencing networks and international integrated broadband network backbone. Prior to joining Digital Equipment Corp., Ms. Bird held technical design and management positions with AT&T, Hartford Insurance and ROLM. Ms. Bird received a BS degree in business administration and organizational development from the University of New Hampshire.

Christopher K. Carter joined us in June 2005 and currently serves as Executive Vice President, Sales and Account Management. Prior to joining us, Mr. Carter spent 25 years directing operations, product and account management for technology and financial services companies across the globe. From March 2001 to June 2005, Mr. Carter served as Director of Image Sharing and Exchange at Viewpointe, a bank consortium providing paper and electronic check processing, archival and image exchange services to the financial industry. From November 1999 to March 2001, Mr. Carter served as Global Operations Director for Cognotec, a web-based FX trading system provider, where he established the operations division, as well as managed staff in Dublin, London, Tokyo, New York and Sydney. Mr. Carter also worked at ADP s Electronic Financial Services Group, eventually EDS Consumer Network Services, from 1987 to 1999, serving in account and product management roles, e-commerce and global business development before becoming Division Vice President and General Manager. Prior to that, Mr. Carter helped establish the Georgia Credit Union Affiliates after working at US Central Credit Union. Mr. Carter received a BBA degree in accounting from the University of Wisconsin-Madison in 1979.

Edwin M. Cooperman has served as a director of the Company since July 2000. He is a principal of T.C. Solutions, a privately-held investment and financial services consulting firm. Previously, Mr. Cooperman was Chairman of the Travelers Bank Group and Executive Vice President, Travelers Group, where he was responsible for strategic marketing, the integration of Travelers brands and products, joint and cross marketing efforts and corporate identity strategies, as well as expanding the Travelers Bank Group s credit card portfolios. After joining Travelers in 1991, Mr. Cooperman became Chairman and CEO of Primerica Financial Services Group, which comprises Primerica Financial Services, Benefit Life Insurance Company and Primerica Financial Services Canada. Previous to this, Mr. Cooperman served at American Express where he became Chairman and Co-Chief Executive of Travel Related Services, North America. Mr. Cooperman is also a director of Grannum Value Mutual Fund.

Lonnie W. Hardin joined us in November 1997 in connection with our acquisition of US Health Data Interchange, Inc. Since November 2005, he has served as Executive Vice President, Operations, and from October 2000 until November 2005, he served as Senior Vice President of Payer Services. From November 1997 to October 2000, Mr. Hardin served as the Senior Vice President of Field Claims Operations. Prior to joining us, Mr. Hardin was employed by US Health Data Interchange, Inc. from 1991 through 1997, during which time he held the positions of Vice President Sales/Marketing and General Manager. Mr. Hardin is currently on the Board of Directors for the Electronic Healthcare Network Accreditation Commission and the Association for Electronic Health Care Transaction.

Thomas E. Hodapp has served as a director for us since July 2000. In 1999, Mr. Hodapp founded Access Capital Management, a private banking and management firm dedicated to providing financial and strategic advisory services to select, early stage private healthcare and information technology companies. From 1992 to 1998, Mr. Hodapp was a Managing Director for Robertson Stephens & Company, LLC, a leading international investment banking firm, overseeing the firm s Healthcare Managed Care Research Group, with a focus on the managed care, practice management and healthcare information services industries. From 1988 to 1992, he was with Montgomery Medical Ventures, a venture firm focused on the biotechnology, medical device and healthcare service fields. MMV I and II actively managed long-term investments in over 40 early stage companies, many of which the firm was involved in co-founding. Prior to that, Mr. Hodapp researched the healthcare industry as an industry analyst with Goldman, Sachs & Company, S.G. Warburg Securities and Volpe & Covington. Additionally, Mr. Hodapp has been published in a number of major financial and healthcare industry journals and publications, was a two-time selection to the Wall Street Journal Research Analyst All-Star Team, and is a frequent speaker at national healthcare investment and strategy forums.

Braden R. Kelly was appointed as a director in April 2002 and elected acting chairman in February 2006. Mr. Kelly is a Managing Director of General Atlantic, LLC, a leading global private equity firm providing capital for innovative companies where information technology or intellectual property is a key driver of growth where he has been employed in various capacities since 1995. Prior to joining General Atlantic, Mr. Kelly was a member of the Mergers, Acquisitions, and Restructurings Department at Morgan Stanley & Co. He also serves as a director of Eclipsys Corporation, HEALTHvision, Inc. and Schaller Anderson, Incorporated Mr. Kelly received his BA in Finance and Business Economics from the University of Notre Dame.

John G. Lettko was appointed as our Chief Executive Officer in May 2005 and as our President in October 2005. Prior to joining us, he served as Chief Executive Officer from February 2001 to February 2005 and as Chairman of the Board from January 2002 through February 2005 for Viewpointe Archive Services, a bank consortium providing paper and electronic check processing, archival and image exchange services to the financial industry. From October 1999 to February 2001, Mr. Lettko served as president of Xpede, Inc., a software provider to bank lenders, where he led the sales, marketing, business development and investor relations functions. Prior to that, Mr. Lettko spent 10 years at Electronic Data Systems, a Global IT outsourcing company, where he managed global accounts in Asia, Europe and the Americas. Mr. Lettko also held key positions at the Progressive Companies and Fleet National Bank, where he played central roles in the formation of several regional ATM networks. Mr. Lettko holds an MBA in Finance and Management Information Systems from State University of New York at Albany and a BS from Union College.

James H. McGuire was appointed as a director in September 2005. Since 1992, Mr. McGuire has been the President of NJK Holding Corporation, a privately-held investment company that has invested in a broad spectrum of industries including financial services, health care, litigation services, certification/training, and publishing. His background includes both commercial banking and the computer and software industry. He spent 12 years with Control Data Corporation where he was a Vice President in the Peripherals Company. Mr. McGuire is a director of Digital Insight Corporation, a leading online banking provider for financial institutions, and served as Chairman of the Board from its inception in 1997 until June 1999. Mr. McGuire also has been a director since 1995 of Laureate Education Inc., a higher education company. Laureate was formerly Sylvan Learning Systems, Inc. Mr. McGuire received his BA in finance from the University of Notre Dame.

Kevin M. McNamara was appointed as a director in September 2002 and has served as Chairman of the Board since December 2004. He also served as Interim Chief Executive Officer from January 2005 to May 2005. Mr. McNamara resigned from the Board in January 2006 to focus on his newly evolving responsibilities with his current employer. Mr. McNamara is currently a board member of HCCA International, Inc., a healthcare management and recruitment company. In April, 2005, he became the Chief Financial Officer of Healthspring, Inc. f/k/a Newquest. Healthspring Inc. is an HMO that focuses mainly on providing health coverage to medical beneficiaries. From November 1999 until February 2001, Mr. McNamara served as Chief Executive Officer and a director of Private Business, Inc., a provider of electronic commerce solutions that helps community banks provide accounts receivable financing to their small business customers. From 1996 to 1999, Mr. McNamara served as Senior Vice President and Chief Financial Officer of Envoy. Before joining Envoy, he served as president of NaBanco Merchant Services Corporation, then one of the world s largest merchant credit card processors. Mr. McNamara currently serves on the Board of Directors of Luminex Corporation, a medical device company, and Comsys IT Partners, an information technology staffing company, as well as several private companies. He is a Certified Public Accountant and holds a BS in Accounting from Virginia Commonwealth University and a Masters in Business Administration from the University of Richmond.

Allison W. Myers joined us in June 2005 as part of a strategic task force focused on improving the company and currently serves as our Executive Vice President of Human Resources. Prior to joining us, Ms. Myers served from 2001 to 2005 for Viewpointe, a bank consortium providing electronic check processing services to the financial industry. During her tenure at Viewpointe, Ms. Myers specialized in facilities management, vendor relationships and organizational management. Ms. Myers received a BS in communications from Texas A&M University in College Station, Texas.

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Douglas J. O Dowd joined us in March 2004 upon our acquisition of PlanVista Corporation. Mr. O Dowd was named our Interim Chief Financial Officer in August 2005 and as our Chief Financial Officer in October 2005. While at PlanVista, Mr. O Dowd held the position of Vice President and Controller from April 2002 until August 2005. From December 1999 to April 2002, Mr. O Dowd served as Chief Financial Officer of NexTrade Holdings, Inc., a privately held corporation that is one of six electronic communications networks approved by the United States Securities and Exchange Commission. Prior to NexTrade, Mr. O Dowd served as corporate controller from December 1996 to December 1999 of JLM Industries, Inc., a publicly traded petrochemical manufacturer and distributor worldwide, where he led the company s initial public offering. Mr. O Dowd began his career with Deloitte and Touche, where he was a senior accountant and Certified Public Accountant. Mr. O Dowd received his MS and BS degrees in accounting from the University of Florida.

David E. Oles served as our General Counsel and Secretary beginning in April 2004 and was named Executive Vice President in December 2005. In January of 2006, we entered into an agreement with Mr. Oles under which he resigned his position as of January 31, 2006. Prior to joining us, Mr. Oles served as Vice President and Associate General Counsel of NDCHealth Corporation from 2000 to 2004. From 1998 through 2000, Mr. Oles engaged in the private practice of law as an associate in the Healthcare group of the law firm of Alston & Bird LLP in Atlanta, Georgia, and in the healthcare corporate group of Reed Smith Shaw and McClay, LLP from 1996 through 1998. Mr. Oles received his J.D. from Harvard Law School, and his MBA and BBA from the University of Memphis.

Emily J. Pietrzak joined us in June 2005 and currently serves as our Executive Vice President, Marketing and Communications. Prior to that time, she served as the Director of Communications from 2002 to 2005 for Viewpointe, a bank consortium providing electronic check processing and archival services to the financial industry. Before joining Viewpointe in 2002, Ms. Pietrzak served from 2001 to 2002 as the online editor for advertising agency Gear-Six, designing and launching online campaigns for the firm s largest customer. In 2001, she also served as the senior marketing consultant for The Fourth Wall, Inc., a consulting firm specializing in marketing strategy and communications. Prior to that, Ms. Pietrzak led strategic planning and marketing activities as the marketing manager for Xpede, an online mortgage application company. Ms. Pietrzak began her career at Deloitte and Touche, and she received a BS in business administration/finance from St. Mary s College in California.

Eugene R. Terry was appointed as a director in August 1995. Mr. Terry is a pharmacist and is a principal of T.C. Solutions, a privately-held investment and financial services consulting firm. From December 2001 through 2003, Mr. Terry was director and interim chairman of Medical Nutrition. In 2001, Mr. Terry was a director on the board of In-Home Health, a Home Healthcare Company acquired by Manor Care, Inc. He currently serves as a director and consultant for MSO Medical, a bariatric surgery management company. He began that position in 2004. In 1971, Mr. Terry founded Home Nutritional Support, Inc., referred to as HNSI, one of the first companies established in the home infusion industry. In 1984, HNSI was sold to Healthdyne, Inc., and later to the W.R. Grace Group. From 1975 to 1984, Mr. Terry was also founder and Chief Executive Officer of Paramedical Specialties, Inc., a respiratory and durable medical equipment company, which was also sold to Healthdyne, Inc. Mr. Terry currently is a director of HCM, a prescription auditing firm.

Audit Committee

The members of our audit committee are Thomas E. Hodapp, Eugene R. Terry, and interim member James H. McGuire. Mr. Terry is our audit committee financial expert. Each of Mr. Hodapp, Mr. Terry, and Mr. McGuire is independent as defined in the National Association of Securities Dealers Listed Company Manual and Section 10A(m)(3)(B) of the Exchange Act.

The principal functions of the audit committee are to appoint, compensate, and oversee the independent publicly registered auditors; to review and approve annual and quarterly financial statements and all legally required public discloser documents containing financial information about us; to review and approve the adequacy of internal accounting controls and the quality of financial reporting procedures and systems; to examine the presentation and impact of key financial and other significant risks that may be material to our financial reporting; and to review and approve the nature and scope of the annual audit and review the results of the external auditor s examination. The audit committee reports its findings with respect to such matters to the board of directors.

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PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: */s/ John G. Lettko*

John G. Lettko
Chief Executive Officer

Dated: March 14, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John G. Lettko and Douglas J. O Dowd 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.

Signature	Title	Date
/s/ John G. Lettko John G. Lettko	Director, Chief Executive Officer and President (*Principal Executive Officer*)	March 14, 2006
/s/ Douglas J. O Dowd Douglas J. O Dowd	Vice President, Finance and Chief Financial Officer (*Principal Financial and Accounting Officer*	March 14, 2006
/s/ Edwin M. Cooperman Edwin M. Cooperman	Director	March 14, 2006
/s/ Thomas E. Hodapp Thomas E. Hodapp	Director	March 14, 2006
/s/ Braden R. Kelly Braden R. Kelly	Interim Chairman of the Board of Directors	March 14, 2006
/s/ Eugene R. Terry Eugene R. Terry	Director	March 14, 2006

/s/ James McGuire James McGuire	Director	March 14, 2006

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EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of December 5, 2003, by and among the Registrant, Planet Acquisition Corp. and PlanVista Corporation (incorporated by reference to Annex A of the Registration Statement on Form S-4, File No. 333-111024).
2.2	Agreement and Plan of Merger and Reorganization dated December 31, 2002 between ProxyMed, Inc., Davie Acquisition Corp., and MedUnite Inc. (incorporated by reference to Exhibit 2.1 of Form 8-K File No. 000-22052, reporting an event dated December 31, 2002).
2.3	Asset Purchase Agreement dated July 30, 2002 between ProxyMed, Inc. and MDIP, Inc. (incorporated by reference to Exhibit 2.1 of Form 8-K File No. 000-22052, reporting an event dated July 31, 2002).
2.4	Stock Purchase Agreement dated May 6, 2002 between ProxyMed, Inc. and KenCom Communications & Services, Inc. (incorporated by reference to Exhibit 2.1 of Form 8-K File No. 000-22052, reporting an event dated May 6, 2002).
2.5	Stock and Warrant Purchase Agreement between ProxyMed and General Atlantic Partners 74, L.P., GAP Coinvestment Partners II, L.P., GAPCO GmbH & Co., KG and GapStar, LLC (incorporated by reference to Exhibit 10.1 of Form 8-K, File No. 000-22052, reporting an event dated March 26, 2002).
2.6	Asset Purchase Agreement dated June 28, 2004 between ProxyMed, Inc., and Key Communications Services, Inc., and Key Electronics, Inc. (incorporated by reference to Exhibit 2.1 of Form 8-K File No. 000-22052, reporting an event dated July 30, 2004).
3.1	Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form SB-2, File No. 333-2678).
3.2	Bylaws, as amended (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form SB-2, File No. 333-2678).
3.3	Articles of Amendment to Restated Articles of Incorporation of the Registrant dated March 1, 2004 (incorporated by reference to Exhibit 3.1 of Form 8-K File No. 000-22052, reporting an event dated March 2, 2004).
3.4	Articles of Amendment to Articles of Incorporation of the Registrant dated May 22, 2002 (incorporated by reference to Exhibit 3.4 of Form 10-K for the period ended December 31, 2003).
3.5	Articles of Amendment to Articles of Incorporation of the Registrant dated December 21, 2001 (incorporated by reference to Exhibit 3.1 of Form 8-K File No. 000-22052, reporting an event dated December 13, 2001).
3.6	Articles of Amendment to Articles of Incorporation dated August 21, 2001 (incorporated by reference to Exhibit 2.2 of Form 8-K, File No. 000-22052, reporting an event dated August 17, 2001).
3.7	Articles of Amendment to Articles of Incorporation dated July 25, 2001 (incorporated by reference to Exhibit 2.1 of Form 8-K, File No. 000-22052, reporting an event dated August 17, 2001).
3.8	Articles of Amendment to Articles of Incorporation of the Registrant dated July 7, 2000 (incorporated by reference to Exhibit 3.8 of Form 10-K for the period ended December 31, 2003).
3.9	Articles of Amendment to Articles of Incorporation of the Registrant dated June 15, 2000 (incorporated by reference to Exhibit 3.4 of Form 10-Q/A for the period ended June 30, 2000).
4.1	Common Stock Purchase Warrants issued to First Data Corporation (incorporated by reference to Exhibit 10.1 of Form 8-K, File No. 000-22052, reporting an event dated July 8, 2003).
4.2	Form of 4% Convertible Promissory Notes dated December 31, 2002 issued in connection with the Agreement and Plan of Merger and Reorganization dated December 31, 2002 between ProxyMed, Inc., Davie Acquisition Corp., and MedUnite, Inc. (incorporated by reference to Exhibit 10.1 of Form 8-K File No. 000-22052, reporting an event dated December 31, 2002).

4.3 Form of Common Stock Purchase Warrants issued to General Atlantic Partners 74, L.P., GAP Coinvestment Partners II, L.P., GAPCO GmbH & Co., KG and GapStar, LLC (incorporated by reference to Exhibit 10.2 of Form 8-K, File No. 000-22052, reporting an event dated March 26, 2002).

4.4 Form of Exchanged Warrant to Purchase Common Stock of the Registrant dated May 4, 2000, issued to certain investors (incorporated by reference to Exhibit 4.1 of Form 8-K, File No. 000-22052, reporting an event dated May 4, 2000).

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Exhibit No.	Description
4.5	Form of New Warrant to Purchase Common Stock of the Registrant dated May 4, 2000, issued to certain investors (incorporated by reference to Exhibit 4.2 of Form 8-K, File No. 000-22052, reporting an event dated May 4, 2000).
4.6	Form of Warrant to Purchase Common Stock of the Registrant dated December 23, 1999, issued to certain investors (incorporated by reference to Exhibit 4.1 of Form 8-K, File No. 000-22052, reporting an event dated December 23, 1999).
10.1	Amended and Restated Registration Rights Agreement among the Registrant, General Atlantic Partners 77, L.P., General Atlantic Partners 74, L.P., GAP Coinvestment Partners II, L.P., GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC, GapStar, LLC, GAPCO GmbH & Co. KG, PVC Funding Partners, LLC, ComVest Venture Partners, L.P., Shea Ventures, LLC, and Robert Priddy, dated March 2, 2004 (incorporated by reference to Exhibit 4.1 of Form 8-K, File No. 000-22052, reporting an event dated March 2, 2004).
10.2	Stock Purchase Agreement, dated as of December 5, 2003 among the Registrant, General Atlantic Partners 77, L.P., GAP Coinvestment Partners II, L.P., GapStar, LLC, GAPCO GmbH & Co. KG, PVC Funding Partners, LLC, ComVest Venture Partners, L.P., Shea Ventures, LLC, and Robert Priddy (incorporated by reference to Exhibit 2.2 of the Registration Statement on Form S-4, File No. 333-111024).
10.3	Registration Rights Agreement among the Registrant General Atlantic Partners 74, L.P., GAP Coinvestment Partners II, L.P., GapStar, LLC and GAPCO GmbH & Co. KG dated April 5, 2002 (incorporated by reference to Exhibit 10.3 of Form 8-K, File No. 000-22052, reporting an event dated March 29, 2003).
10.4	Registration Rights Agreement dated December 31, 2002 among ProxyMed, Inc. and the holders of the 4% Convertible Promissory Notes (incorporated by reference to Exhibit 10.2 of Form 8-K File No. 000-22052, reporting an event dated December 31, 2002).
10.5	Form of Indemnification Agreement for all Officers and Directors adopted May 22, 2002 (incorporated by reference to Exhibit 10.55 of Form 10-K for the period ended December 31, 2002).
10.6	Registration Rights Agreement dated May 6, 2002 ProxyMed, Inc. and Deborah M. Kennedy and Colleen Phillips-Norton (incorporated by reference to Exhibit 10.1 of Form 8-K File No. 000-22052, reporting an event dated May 6, 2002).
10.7	Registration Rights Agreement between ProxyMed and General Atlantic Partners 74, L.P., GAP Coinvestment Partners II, L.P., GapStar, LLC, and GAPCO GmbH & Co. KG (incorporated by reference to Exhibit 10.3 of Form 8-K, File No. 000-22052, reporting an event dated March 26, 2002).
10.8	Employment Letter between ProxyMed and Jeffrey L. Markle effective March 2, 2004 (incorporated by reference to Exhibit 10.8 of Form 10-K for the period ended December 31, 2003).*
10.9	Employment Agreement between ProxyMed and Gregory J. Eisenhauer dated December 8, 2003 (incorporated by reference to Exhibit 10.9 of Form 10-K for the period ended December 31, 2003).*
10.10	Employment Agreement between ProxyMed and Tom Wohlford dated May 13, 2003 (incorporated by reference to Exhibit 10.10 of Form 10-K for the period ended December 31, 2003).*
10.11	Employment Agreement between ProxyMed and A. Thomas Hardy dated December 31, 2001 (incorporated by reference to Exhibit 10.40 of Form 10-K for the period ended December 31, 2001).*
10.12	Employment Agreement between ProxyMed and Lonnie W. Hardin dated March 29, 2001 (incorporated by reference to Exhibit 10.1 of Form 10-Q for the period ended March 31, 2001).*
10.13	Employment Agreement between ProxyMed and Timothy J. Tolan dated January 23, 2001 (incorporated by reference to Exhibit 10.30 of Form 10-K for the period ended December 31, 2000).*
10.14	

	Amendment to Employment Agreement between ProxyMed and Timothy J. Tolan effective January 1, 2004 (incorporated by reference to Exhibit 10.15 of Form 10-K for the period ended December 31, 2003).*
10.15	Employment Agreement between ProxyMed and Michael K. Hoover dated July 28, 2000 (incorporated by reference to Exhibit 99.1 of Form 10-Q for the period ended September 30, 2000).*
10.16	Amendment to Employment Agreement between ProxyMed and Michael K. Hoover effective January 1, 2004 (incorporated by reference to Exhibit 10.17 of Form 10-K for the period ended December 31, 2003).*

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Exhibit No.	Description
10.17	Employment Agreement between ProxyMed and Judson E. Schmid dated September 29, 2000 (incorporated by reference to Exhibit 99.2 of Form 10-Q for the period ended September 30, 2000).*
10.18	Employment Agreement between ProxyMed and Nancy J. Ham dated October 2, 2000 (incorporated by reference to Exhibit 99.3 of Form 10-Q for the period ended September 30, 2000).*
10.19	Amendment to Employment Agreement between ProxyMed and Nancy J. Ham effective January 1, 2004 (incorporated by reference to Exhibit 10.20 of Form 10-K for the period ended December 31, 2003).*
10.20	Employment Agreement between ProxyMed and John Paul Guinan (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form SB-2, File No. 333-2678).*
10.21	Form of bonus letter offered to executive and senior management on February 26, 2002 (incorporated by reference to Exhibit 10.54 of Form 10-K for the period ended December 31, 2002).*
10.22	2002 Stock Option Plan, as amended (incorporated by reference to Exhibit 10.23 of Form 10-K for the period ended December 31, 2003).*
10.23	2001 Stock Option Plan (incorporated by reference to Exhibit B of the Proxy Statement filed on June 22, 2001).*
10.24	2000 Stock Option Plan (incorporated by reference to Exhibit B of the Proxy Statement filed on June 12, 2000).*
10.25	20001/2 Stock Option Plan (incorporated by reference to Exhibit C of the Proxy Statement filed on June 12, 2000).*
10.26	1997 Stock Option Plan (incorporated by reference to Exhibit A of the Proxy Statement filed on May 6, 1997).*
10.27	Amended 1993 Stock Option Plan (incorporated by reference to Exhibit A of ProxyMed s Proxy Statement for its 1994 Annual Meeting of Shareholders).*
10.28	1995 Stock Option Plan (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form SB-2, File No. 333-2678).*
10.29	Subscription Agreement dated December 21, 2001 for the private placement issuance of up to $8,000,000 of ProxyMed, Inc. common stock (incorporated by reference to Exhibit 10.1 of Form 8-K File No. 000-22052, reporting an event dated December 13, 2001).
10.30	Placement Agency Agreement dated December 18, 2001 between ProxyMed, Inc. and Commonwealth Associates, L.P. for the private placement issuance of up to $8,000,000 of ProxyMed, Inc. common stock (incorporated by reference to Exhibit 10.2 of Form 8-K File No. 000-22052, reporting an event dated December 13, 2001).
10.31	Conversion Agreement for Series C 7% Convertible Preferred shareholder pursuant to conversion offer dated December 13, 2001 (incorporated by reference to Exhibit 10.3 of Form 8-K File No. 000-22052, reporting an event dated December 13, 2001).
10.32	Designation and Subscription Amendment Agreement for Series C 7% Convertible Preferred shareholder pursuant to conversion offer dated December 13, 2001 (incorporated by reference to Exhibit 10.4 of Form 8-K File No. 000-22052, reporting an event dated December 13, 2001).
10.33	Loan and Security Agreement by and between ProxyMed, Key Communications Service, Inc., MedUnite Inc. and Wachovia Bank, National Association dated December 4, 2003 (incorporated by reference to Exhibit 10.34 of Form 10-K for the period ended December 4, 2003).
10.34	Revolver Note dated December 4, 2003, issued in connection with the Loan and Security Agreement by and between ProxyMed, Key Communications Service, Inc., MedUnite Inc. and Wachovia Bank, National Association dated December 4, 2003 (incorporated by reference to Exhibit 10.35 of form 10-K for the period ended December 31, 2003).
10.35	

	Patent and Trademark Security Agreement effective as of December 4, 2003 between ProxyMed, Key Communications Service, Inc., MedUnite Inc. and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.36 of Form 10-K for the period ended December 31, 2003).
10.36	Independent Contractor Agreement between ProxyMed and Kevin M. McNamara dated December 21, 2004 (incorporated by reference to Exhibit 99.1 of Form 8-K File No. 000-22052, reporting an event dated December 21, 2004.*

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Exhibit No.	Description
10.37	Employment Agreement between ProxyMed and David Edward Oles dated April 14, 2004 (incorporated by reference to Exhibit 10.10 of Form 10-Q for the period ended March 31, 2004).*
10.38	Amendment to Employment Agreement between ProxyMed and Judson E. Schmid dated June 2, 2004 (incorporated by reference to Exhibit 10.2 of Form 10-Q for the period ended June 30, 2004).*
10.39	Consulting Agreement between ProxyMed and Philip S. Dingle dated April 13, 2004 (incorporated by reference to Exhibit 10.3 of Form 10-Q for the period ended June 30, 2004).*
10.40	Letter Agreement dated July 14, 2004 between ProxyMed and Gregory J. Eisenhauer (incorporated by reference to Exhibit 10.2 of Form 10-Q for the period ended September 30, 2004).*
10.41	Purchase Agreement dated June 27, 1997 by and between ProxyMed, Inc. and Walgreen Co.
10.42	Letter Agreement dated March 8, 2005 between ProxyMed, Inc. and Nancy J. Ham.*
10.43	Letter Agreement dated March 8, 2005 between ProxyMed, Inc. and Lonnie J. Hardin.*
10.44	Letter Agreement dated March 8, 2005 between ProxyMed, Inc. and Gregory J. Eisenhauer.*
10.45	Letter Agreement dated March 8, 2005 between ProxyMed, Inc. and Jeffrey L. Markle.*
16	Letter Regarding Change in Certifying Accountant dated August 16, 2004 from PricewaterhouseCoopers LLP to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 of Form 8-K File No. 000-22052, reporting an event dated August 11, 2004).
21	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Deloitte & Touche LLP.
31.1	Certification by John G. Lettko, Chief Executive Officer, pursuant to Exchange Act Rules 13a-14 and 15d-14.
31.2	Certification by Douglas J. O Dowd, 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 Douglas J. O Dowd, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Denotes management contract or compensating plan or arrangement.

PROXYMED, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements and Schedule

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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 sheets of ProxyMed, Inc. and its subsidiaries (d/b/a MedAvant Healthcare Solutions) (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the two years in the period ended December 31, 2005. Our audit also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) for the years ended December 31, 2005 and 2004. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits. The consolidated financial statements and consolidated financial statement schedule of the Company for the year ended December 31, 2003 were audited by other auditors whose report, dated March 25, 2004, expressed an unqualified opinion on the consolidated financial statements and consolidated financial statement schedule.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, such 2005 and 2004 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the results of its operations, its changes in stockholders equity, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such consolidated 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, 2005 and 2004.

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, 2005, 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 14, 2006 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s 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 14, 2006

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated statements of operations, stockholders equity and cash flows for the year ended December 31, 2003 (listed in the index appearing under Item 15(a)(l) on page (45)) present fairly, in all material respects, the results of operations and cash flows of ProxyMed, Inc. and its subsidiaries for the year 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 for the year ended December 31, 2003 listed in the index appearing under Item 15(a)(2) on page (45) 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 audit. We conducted our audit 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 audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Fort Lauderdale, Florida
March 25, 2004

PROXYMED, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2005 and 2004

		2005		2004
	(Amounts in thousands except share and per share data)			
ASSETS				
Current assets:				
Cash and cash equivalents	$	5,546	$	12,374
Accounts receivable trade, net of allowance for doubtful accounts of $5,525 and $3,168, respectively		15,976		17,591
Other receivables		140		312
Inventory, net		1,030		1,775
Restricted cash		75		
Other current assets		950		1,399
Total current assets		23,717		33,451
Property and equipment, net		4,322		4,801
Goodwill		26,444		93,604
Purchased technology, capitalized software and other intangible assets, net		17,879		52,305
Restricted cash				75
Other long-term assets		3,279		167
Total Assets	$	75,641	$	184,403
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Notes payable and current portion of long-term debt	$	8,584	$	2,178
Related party debt See Notes 11(b) and 19				18,394
Accounts payable and accrued expenses and other current liabilities		14,009		13,637
Deferred revenue		334		691
Income taxes payable		775		215
Total current liabilities		23,702		35,115
Income taxes payable		911		
Convertible notes		13,137		13,137
Other long-term debt		3,335		206
Long-term deferred revenue and other long-term liabilities		1,652		863
Total liabilities		42,737		49,321

Commitments and contingencies see Notes 18		
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 13,203,702, and 12,626,182 shares, respectively	14	13
Additional paid-in capital	242,297	239,255
Unearned compensation	(40)	(113)
Accumulated deficit	(209,367)	(104,073)
Total stockholders equity	32,904	135,082
Total liabilities and stockholders equity	$ 75,641	$ 184,403

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

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PROXYMED, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(Amounts in thousands except share and per share data)		
Net revenues:			
Transaction fees, cost containment services and license fees	$ 67,909	$ 73,538	$ 51,813
Communication devices and other tangible goods	9,610	16,708	19,743
	77,519	90,246	71,556
Costs and expenses:			
Cost of transaction fees, cost containment services and license fees excluding depreciation and amortization	20,674	22,626	15,917
Cost of laboratory communication devices and other tangible goods excluding depreciation and amortization	6,150	11,586	16,504
Selling, general and administrative expenses	47,962	48,023	35,809
Depreciation and amortization	9,305	9,763	6,316
Loss on disposal of assets	14	47	111
Litigation settlement	175	175	
Write-off of impaired assets	96,416		541
	180,696	92,220	75,198
Operating loss	(103,177)	(1,974)	(3,642)
Other income (expense), net	1	134	(496)
Interest expense, net	(2,118)	(1,920)	(862)
Loss before income taxes	(105,294)	(3,760)	(5,000)
Provision for income taxes		40	
Net loss	$ (105,294)	$ (3,800)	$ (5,000)
Basic and diluted weighted average shares outstanding	12,707,695	11,617,601	6,783,742
Basic and diluted loss per share	$ (8.29)	$ (0.33)	$ (0.74)

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

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PROXYMED, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity
Years Ended December 31, 2005, 2004 and 2003

	Series C Preferred Stock		Common Stock		Additional	Unearned		Notes Receivable from Stock-holder	
	Number of Shares	Par Value	Number of Shares	Par Value	Paid-in Capital	Compen-sation	Accumulated Deficit		Total
	(Amounts in thousands except for share and per share data)								
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)
Balances, December 31, 2003	2,000		6,784,118	7	146,230		(100,273)	(186)	45,778
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					68				68

disposal of assets								
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
Compensatory option charges				173	73			246
Issuance of Common Stock		577,520	1	2,869				2,870
Net loss						(105,294)		(105,294)
Balances, December 31, 2005	2,000	$ 13,203,702	$ 14	$ 242,297	$ (40)	$ (209,367)	$	$ 32,904

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

Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(Amounts in thousands)		
Cash flows from operating activities:			
Net loss	$ (105,294)	$ (3,800)	$ (5,000)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	9,305	9,763	6,316
Provision for doubtful accounts		858	152
Provision for obsolete inventory	214	92	28
Non-cash interest (income) expense		(59)	54
Loss (Gain) on settlement of liability	175	(134)	
Write-off of impaired assets	96,416		541
Compensatory stock options and warrants and stock compensation awards issued	246	275	
Write-off of investment			496
Loss on disposal of fixed assets	14	47	111
Changes in assets and liabilities, net of effect of acquisitions and dispositions:			
Accounts and other receivables	1,615	548	(498)
Inventory	531	(1,329)	(601)
Other current assets	706	465	430
Accounts payable and accrued expenses	(678)	124	(1,173)
Accrued expenses of PlanVista paid by ProxyMed		(4,011)	
Deferred revenue	(357)	137	222
Income taxes	1,471	(418)	
Other, net	819	(727)	440
Net cash provided by operating activities	5,183	1,831	1,518
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired		782	
Capital expenditures	(2,295)	(3,440)	(2,601)
Capitalized software	(557)	(909)	(1,426)
Collection of notes receivable		374	120
Proceeds from sale of fixed assets	57	4,526	395
Decrease in restricted cash		215	534
Payments for acquisition-related costs		(884)	(6,623)
Net cash (used in) provided by investing activities	(2,795)	664	(9,601)
Cash flows from financing activities:			

Net proceeds from sale of common stock	500	24,100	
Proceeds from exercise of stock options and warrants		8,766	7
Draws on line of credit	47,015	4,900	
Repayments of line of credit	(39,517)	(4,900)	
Payment of related party note payable	(18,894)	(2,000)	
Borrowings on notes payable	4,070		
Debts issuance cost	(857)		
Payment of notes payable, long-term debt and capital leases	(1,533)	(26,320)	(2,969)
Net cash (used in) provided by financing activities	(9,216)	4,546	(2,962)
Net (decrease) increase in cash and cash equivalents	(6,828)	7,041	(11,045)
Cash and cash equivalents at beginning of year	12,374	5,333	16,378
Cash and cash equivalents at end of year	$ 5,546	$ 12,374	$ 5,333

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

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Business and Summary of Significant Accounting Policies

(a) *Business of ProxyMed* ProxyMed, Inc. (ProxyMed , MedAvant 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 Norcross, 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.

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.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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.

(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.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(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.

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. If unrecoverable, the carrying value on long-lived assets are adjusted to fair value.

(j) *Intangible Assets*

Goodwill Goodwill is reviewed at least annually for impairment and between annual tests in certain circumstances. In addition, SFAS No. 142 requires that goodwill be tested for impairment at least annually utilizing fair value methodology. We completed our most recent test at December 31, 2005, and we concluded that there was no further impairment of our goodwill from the interim impairment test conducted as of September 30, 2005 (See Note 9). 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 over their estimated useful lives of 7 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. See Note 9 concerning impairment charge during 2005.

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.

Purchased technology and capitalized software are being amortized on a straight-line basis over their estimated useful lives of 3-12 years. Purchased technology and capitalized software and related accumulated amortization are removed from the accounts when fully amortized and are no longer being utilized.

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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 $3.2 million in 2005, $2.3 million in 2004, and $4.4 million in 2003 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 Loss Per Share* Due to the net losses for the years ended December 31, 2005, 2004 and 2003 basic and diluted net loss per share is computed by dividing net loss applicable to common shareholders by the weighted average number of shares of Common Stock outstanding during the period. The following schedule sets forth the computation of basic and diluted net loss per share for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
	(In thousands except for share and per share data)		
Net loss applicable to common shareholders	$ (105,294)	$ (3,800)	$ (5,000)
Common shares outstanding:			
Weighted average common shares used in computing basic and diluted net loss per share	12,707,695	11,617,601	6,783,742
Plus incremental shares from assumed conversions:			
Convertible preferred stock			
Stock options			
Warrants			
Weighted average common shares used in computing basic and diluted net loss per share	12,707,695	11,617,601	6,783,742
Basic and diluted net loss per common share:	$ (8.29)	$ (0.33)	$ (0.74)

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

	2005	2004	2003

Convertible preferred stock	13,333	13,333	13,333
Stock options	1,750,167	1,812,909	1,426,670
Warrants	857,215	900,049	1,460,994
	2,620,715	2,726,291	2,900,997

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, 2005, 2004, and 2003 because their effect would also be anti-dilutive.

(m) *Stock-based Compensation* 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

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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 13. Management has completed an analysis of the weighted average duration (or actual life) of their stock options and concluded that as of 2005, the appropriate estimated life is approximately 6 years. Had the Company adopted SFAS No. 123 in accounting for its stock option plans, the Company s consolidated net loss and net loss per share for the years ended December 31, 2005, 2004 and 2003 would have been adjusted to the pro forma amounts indicated as follows:

	2005	**2004**	**2003**
	(In thousands except for per share data)		
Net loss applicable to common shareholders, as reported	$ (105,294)	$ (3,800)	$ (5,000)
Deduct: Total stock-based employee pro forma compensation expense determined under fair value based method for all awards, net of related tax effects (1)	(1,393)	(2,717)	(4,378)
Add back charges already taken for intrinsic value of options	73	115	
Pro forma net loss	$ (106,614)	$ (6,402)	$ (9,378)
Basic and diluted net income (loss) per common share:			
As reported	$ (8.29)	$ (0.33)	$ (0.74)
Pro forma	(8.39)	(0.55)	(1.38)

(1) The following assumptions were used in the calculation of pro forma compensation expense for the periods presented:

Risk-free interest rate	4.0-4.6%	3.8%-4.8%	3.4%-4.4%
Expected life	6 years	6 years	10 years
Expected volatility	82%-85%	75%-77%	81%
Dividend yield	0%	0%	0%

(n) <u>*New Accounting Pronouncements*</u> In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* or SFAS No. 154, which replaces APB Opinion No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements.* SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by the statement) to prior periods financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt SFAS No. 154 as of the beginning of fiscal 2006 and do not expect that the adoption of SFAS No. 154 will have a material impact on the Company s consolidated financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation, or FIN, No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. The Company was required to adopt the provisions of FIN No. 47 no later than the end of its 2005 fiscal year. The adoption of this Interpretation did not have any material impact on the Company s consolidated financial position, results of operations or cash flows.

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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.

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 supersedes 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 December 15, 2005. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 123R. The charge to income will be approximately $0.2 million per year for all options and warrants outstanding as of December 31, 2005.

(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.

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

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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.

An allocation of the purchase price is as follows:

		(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

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.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The original weighted average useful life of the customer relationships was approximately 12.0 years, the original weighted average useful life of the provider network was 10.0 years, and the original weighted average useful life of the technology platforms was 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. See Note 9 for impairment charge in 2005.

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.

See Note 17 for litigation liabilities assumed in the acquisition of PlanVista.

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 13).

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 13). 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.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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.

	2004	2003
	(In thousands except for per share data)	
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)

(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 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 12). 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.

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

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

now convertible into 716,968 shares of the Company s common stock subject to achieving the revenue triggers. As of December 31, 2005, none of the remaining triggers have been achieved.

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.

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.

(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 financial purposes, from the rest of the entity. Accordingly, pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, failure to meet such a condition precluded these assets from being presented as discontinued operations.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

As a result of the transaction, the Company recorded a loss on sales of assets of $0.1 million for the year ended December 31, 2004. This loss includes the value of options to purchase 10,000 shares of the Company s common stock granted to the former executive at an exercise price of $16.00 in July 2004 which was originally accrued at June 30, 2004.

(4) Equity Transactions

(a) _Common Stock_ On April 5, 2002, the Company sold 1,569,366 shares of unregistered common stock at $15.93 per share (the Primary Shares) in a private placement to General Atlantic Partners 74, L.P., GAP Coinvestment Partners II, L.P., Gapstar, LLC, GAPCO GmbH & Co. KG. (the General Atlantic Purchasers), four companies affiliated with General Atlantic Partners, LLC (GAP), a private equity investment fund and received net proceeds of $24.9 million. In addition, the Company also issued two-year warrants for the purchase of 549,279 shares of common stock exercisable at $15.93 per share (the GAP Warrants). No placement agent was used in this transaction. The Company granted the General Atlantic Purchasers and certain of their transferees and affiliates certain demand and piggy back registration rights starting one year from closing. Additionally, in connection with the transaction, a managing member of GAP was appointed as a director to fill a vacancy on the Company s Board of Directors.

As a result of the purchase of the Primary Shares, the General Atlantic Purchasers owned approximately 23.4% of the then outstanding shares of the Company s common stock. At the Company s Annual Meeting of Shareholders held on May 22, 2002, the shareholders of the Company approved that the GAP Warrants may be exercised at any time after April 5, 2003, and prior to April 5, 2004, pursuant to the original terms of the warrant. On March 25, 2004, GAP exercised these warrants for $8.75 million in cash.

As more fully discussed in Note 2 (a), on March 2, 2004, the Company issued 3,600,000 shares of its common stock in its acquisition of PlanVista. Additionally, ProxyMed raised $24.1 million in a private placement sale of 1,691,227 shares 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.

Mr. Lettko received a grant of options for the purchase of 400,000 common shares at the price at which the Company s shares closed on the Nasdaq system on May 10, 2005 and vesting monthly pro rata over a 4 year period. In addition, Mr. Lettko received a grant of 200,000 options to vest in four equal amounts when the Company s share price reaches $15, $20, $25, and $30, respectively. Mr. Lettko is obligated to purchase no less than $500,000 unregistered Company shares at the price at which the Company s shares closed on the Nasdaq system on May 10, 2005.

(b) _Series B Warrants_ In December 2002, 34,500 of Series B Preferred warrants were converted into an equivalent number of common shares for $0.5 million in cash. Since December 31, 2002, no Series B Warrants are outstanding.

(c) Series C Preferred Stock On December 13, 2001, the Company offered to convert its then outstanding Series C 7% Convertible Preferred Stock (the Series C Preferred Stock) into shares of Common Stock at a reduced conversion price (the Conversion Offer). For a period of sixty days ending February 11, 2002, the holders of the Series C Preferred Stock were able to convert such shares at a reduced conversion price of $13.05 per share instead of the original conversion price of $15.00. A deemed dividend charge of $0.6 million was recorded in the first quarter of

2002 for conversions of 31,650 shares of Series C Preferred Stock into 242,508 shares of Common Stock consummated after the 2001 year-end. Subsequent to the Conversion Offer, 1,000 shares of Series C Preferred Stock were converted into 6,666 shares of Common Stock. As of both December 31, 2005 and 2004, there were 2,000 unconverted shares of Series C Preferred Stock, which are convertible into 13,333 shares of Common Stock.

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(d) *Series C Warrants* In 2002, 8,333 Series C Warrants were converted into 1,190 shares of Common Stock. As of December 31, 2004, Series C Warrants remain outstanding to purchase 42,833 of shares of Common Stock. These remaining Series C Warrants expired in June 2005.

(e) *Other Warrants* In conjunction with a joint marketing agreement entered into between the Company and a subsidiary of First Data Corporation (FDC), an electronic commerce and payment services company, in July 2003, the Company issued to FDC a warrant agreement under which FDC may be entitled to purchase up to 600,000 of the Company s common stock at $16.50 per share. The ability of FDC to exercise under the warrant agreement is dependent upon the Company achieving certain revenue-based thresholds under such joint marketing agreement over a three and one-half year period. Additionally, in connection with this agreement, four entities affiliated with GAP, current investors in the Company, received an aggregate of 243,882 warrants, as a result of pre-emptive rights relating to their investment in the Company in April 2002. The GAP warrant agreements are subject to the same terms and conditions as those issued to FDC and are exercisable only if FDC s right to exercise under its warrant agreement is perfected. At the time any of the revenue thresholds is met, the Company may have to record a charge in its statement of operations for the value of the FDC warrants. Both the FDC and GAP warrants expire in December 2006.

Additionally, at December 31, 2005, there are 13,333 warrants exercisable at $149.40 through June 2007 issued in connection with a 1997 business transaction consummated by the Company.

(f) *Other* ProxyMed has remaining 1,555,000 authorized but unissued shares of preferred stock, par value $0.01 per share, which is entitled to rights and preferences to be determined at the discretion of the Board of Directors.

(5) Segment information

ProxyMed operates in two reportable segments that are separately managed: Transaction Services (formerly known as Electronic healthcare transaction processing) and Laboratory Communication Solutions. Transaction Services includes transaction, cost containment and value-added services principally between healthcare providers and insurance companies (Payer Services and Medical Cost Containment Services) and physicians and pharmacies (Prescription Services); and Laboratory Communication Solutions includes the sale, lease and service of communication devices principally to laboratories and through June 30, 2004, the contract manufacturing of printed circuit boards (Laboratory Services). As a result of a re-alignment of its corporate overhead functions (i.e., executives, finance, legal, human resources, facilities, insurance, etc.) in the second quarter of 2004, the Company is now reporting these expenses and assets as part of its Transaction Services segment. International sales were attributable to the manufacturing assets of the Laboratory Communication Solutions segment that were sold on

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

June 30, 2004. Due to the bundling of our products and services, it is impractical to break revenue by product within each segment.

	Year Ended December 31, 2005	2004	2003
		(In thousands)	
Net revenues by operating segment:			
Transaction Services	$ 66,042	$ 71,304	$ 46,673
Laboratory Communication Solutions	11,477	18,942	24,883
	$ 77,519	$ 90,246	$ 71,556
Net revenues by geographic location:			
Domestic	$ 77,519	$ 90,140	$ 70,340
International(1)		106	1,216
	$ 77,519	$ 90,246	$ 71,556
Operating income (loss) by operating segment:			
Transaction Services	$ (104,415)	$ (3,115)	$ (920)
Laboratory Communication Solutions	1,238	1,938	1,119
Corporate		(797)	(3,841)
	$ (103,177)	$ (1,974)	$ (3,642)
Depreciation and amortization by operating segment:			
Transaction Services	$ 8,788	$ 8,718	$ 4,754
Laboratory Communication Solutions	517	823	1,369
Corporate		222	193
	$ 9,305	$ 9,763	$ 6,316
Capital expenditures and capitalized software by operating segment:			
Transaction Services	$ 2,355	$ 3,957	$ 3,345
Laboratory Communication Solutions	497	392	602
Corporate			80
	$ 2,852	$ 4,349	$ 4,027
Total assets by operation segment:			
Transaction Services	$ 63,186	$ 173,061	$ 54,052
Laboratory Communication Solutions	12,455	11,342	12,053
Corporate			7,025
	$ 75,641	$ 184,403	$ 73,130

(1) All amounts are transacted in US Dollars

(6) Investment in Warrant

In June 2003, the Company entered into a joint marketing and distribution agreement with PlanVista to provide the Company s electronic healthcare transaction processing services and PlanVista s network access and repricing service product as an integrated package to existing and prospective payer customers. As part of the 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

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

immediately and expired in December 2003. The warrant was being 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 and calculated using a Black Scholes model) which is reflected in other expense in the Company s consolidated statement of operations for the year ended December 31, 2003.

Additionally, the initial value of the warrant of approximately $0.5 million along with additional amounts of $0.4 million received by the Company under the agreement was being amortized as a reduction of cost of sales over 36 months. Amortization related to these items was $0.1 million for the year ended December 31, 2004. Upon the consummation of its acquisition of PlanVista on March 2, 2004, the Company wrote off the $0.6 million of remaining unamortized amount as part of the purchase price of the acquisition (see Note 2(a)).

(7) Inventory

Inventory at December 31 consists of the following:

	2005	2004
	(In thousands)	
Materials, supplies and component parts	$ 290	$ 651
Work in process	84	32
Finished goods	656	1.098
	1,030	1,781
Less: Obsolescence reserve		(6)
	$ 1,030	$ 1,775

(8) Property and Equipment

Property and equipment at December 31 consists of the following:

	2005	2004	Estimated Useful years
	(In thousands)		
Furniture, fixtures and equipment	$ 2,263	$ 1,763	$ 4 to 7 years
Computer hardware and software	12,851	10,132	2 to 5 years
Service vehicles	141	139	5 years

Leasehold improvements	603	1,087	Life of lease
Revenue earning equipment	1,327	1,302	3 to 5 years
	17,185	14,423	
Less: accumulated depreciation	(12,863)	(9,622)	
Property and equipment, net	$ 4,322	$ 4,801	

Depreciation expense was $2.7 million in 2005, $3.3 million in 2004, and $3.1 million in 2003. Accumulated depreciation for revenue earning equipment at December 31, 2005 and 2004 was $0.3 million and $0.3 million, respectively.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(9) Goodwill and Other Intangible Assets

Goodwill The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets effective January 1, 2002. As a result of our stock price decline, a decrease in our revenues and a restructuring plan we initiated during the third quarter of 2005, we performed an interim goodwill impairment test as of September 30, 2005. In accordance with the provisions of SFAS No. 142, we performed a discounted cash flow analysis which indicated that the book value of the Transaction Services segment exceeded its estimated fair value. Step 2 of this impairment test, as prescribed by SFAS No. 142 led us to conclude that an impairment of our goodwill had occurred. In addition, as a result of our goodwill analysis, we also performed an impairment analysis of our long-lived assets in our Transaction Services segment 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. As a result, we concluded that these intangible assets were impaired and adjusted the carrying value of such assets to fair value. In addition, we also reduced the remaining useful lives of these intangible assets based on the foregoing analysis. Accordingly, we recorded a non-cash impairment charge of $95.7 million at September 30, 2005 in our Transaction Services segment. The charges included $68.1 million impairment of goodwill and $27.6 million impairment of certain other intangibles. No further decline was noted as of our annual testing conducted at December 31, 2005.

In June 2005, we performed an impairment analysis of certain finite-lived intangible assets in our Laboratory Communication Solutions segment due to substantial decrease in revenues from one of our customers. This impairment analysis indicated that the carrying value of certain finite-lived intangible assets was greater than their expected undiscounted future cash flows, as a result, we concluded that these intangible assets were impaired and adjusted the carrying value of such assets to fair value by approximately $0.7 million.

The changes in the carrying amounts of goodwill, net, for the years ending 2005 and 2004 by operating segment are as follows:

	Transaction Services	Laboratory Solutions (In thousands)	Total
Balance as of December 31, 2003	$ 28,673	$ 2,102	$ 30,775
Goodwill acquired during 2004	62,829		62,829
Balance as of December 31, 2004	91,502	2,102	93,604
Adjustments to goodwill	875		875
Write off	(68,035)		(68,035)
Balance as of December 31, 2005	$ 24,342	$ 2,102	$ 26,444

Other Intangible Assets The carrying amounts of other intangible assets as of December 31, 2005 and 2004 by category, are as follows:

	December 31, 2005			December 31, 2004		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
			(In thousands)			
Capitalized software	$ 3,133	$ (1,429)	$ 1,704	$ 2,661	$ (769)	$ 1,892
Purchased technology	8,852	(4,791)	4,061	10,342	(4,738)	5,604
Customer relationships	13,747	(6,454)	7,293	34,283	(4,324)	29,959
Provider network	7,565	(2,744)	4,821	16,200	(1,350)	14,850
	$ 33,297	$ (15,418)	$ 17,879	$ 63,486	$ (11,181)	$ 52,305

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

As part of its acquisition of MedUnite (see Note 2(b)), the Company recorded $6.6 million in customer relationships in the laboratory communication solutions segment, and approximately $1.2 million and $4.8 million for the legacy and real-time technology platforms, respectively. As part of its acquisition of PlanVista (see Note 2(a)), the Company recorded $24.6 million in customer relationships, $16.2 million for a provider network, and $1.2 million in technology platforms, respectively. The valuations of the provider network and technology platforms were based on management s estimates which included consideration of a replacement cost methodology. The values of the customer relationships were calculated on a discounted cash flow model.

As a result of management s periodic review for impairment in accordance with SFAS No. 144, the Company wrote off approximately $0.5 million in customer relationships in the laboratory communication solutions segment and approximately $0.1 million in capitalized software in the transaction services segment during the year ended December 31, 2003. The impairment charges were included in write-off of impaired and obsolete assets in the accompanying consolidated statements of operations.

Estimates of useful lives of other intangible assets are based on historical experience, the historical experience of the entity from which the intangible assets were acquired, the industry in which the Company operates, or on contractual terms. If indications arise that would materially affect these lives, an impairment charge may be required and useful lives may be reduced. Intangible assets are being amortized over their estimated useful lives on either a straight-line or other basis as follows:

	Estimated Useful Lives
Capitalized software	3 5 years
Purchased technology	3 12 years
Customer relationships	7 years
Provider network	7 years

Amortization expense of other intangibles was $3.2 million, $6.5 million and $6.6 million for the years ended December 31, 2003, 2004 and 2005, respectively.

As of December 31, 2005, estimated future amortization expense of other intangible assets in each of the years 2006 through 2010 is as follows:

		(In thousands)
2006	$	6,516
2007		5,729
2008		4,293
2009		1,786
2010		1,733

$	20,057

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(10) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31 consist of the following:

	2005	2004
	(In thousands)	
Accounts payable	$ 4,165	$ 2,072
Accrued payroll and related costs	3,598	3,196
Accrued vendor rebates and network fees payable	2,292	2,825
Accrued professional fees	546	1,645
Other accrued expenses	3,408	3,899
Total accounts payable and accrued expenses	$ 14,009	$ 13,637

Other accrued expenses include the current portion of capital leases payable, customer deposits, estimated property and other non-income based taxes.

(11) Debt Obligations

(a) *Revolving Credit Facility and Term Debt* On December 7, 2005, the Company and certain of its wholly-owned subsidiaries, entered into a security and purchase agreement (the Loan Agreement) with Laurus Master Fund, Ltd. (Laurus) to provide up to $20 million in financing to the Company.

Under the terms of the Loan Agreement, Laurus extended financing to the Company 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 options at the discretion of Laurus. Additionally, in connection with the Loan Agreement, the Company issued 500,000 shares of its 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.

The Company granted Laurus a first priority security interest in substantially all of the Company s present and future tangible and intangible assets (including all intellectual property) to secure the Company s obligations under the Loan Agreement. The Loan Agreement contains various customary representation and warranties of the Company as well as customary affirmative and negative covenants, including, without limitation, limitations on 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. The Company can borrow up to three times trailing 12-month of historical earnings, as defined in the agreement

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 the Company is involved in certain insolvency proceedings. Upon the occurrence of an event of default, Laurus is entitled to, among other things, accelerate all obligations of the Company. 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 the Company elects 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

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

acceleration clauses contained in the agreement and a lockbox arrangement, the revolving credit facility is classified as current in the accompanying consolidated balance sheet.

The Company used the proceeds from the Loan Agreement primarily to repay existing senior debt to Wachovia Bank, National Corporation and for working capital.

On April 18, 2005, the Company closed a new three year, $15.0 million senior asset based facility which was secured by all assets of the combined entities with Wachovia Bank, N.A. The loan was based on qualified accounts receivable and historical cash flows. It bore interest at LIBOR plus 2.7% and was paid monthly in arrears. The $15.0 million loan would have reduced to $12.5 million in June 2006 and was all due at maturity on April 17, 2008, absent an event of default. The Company used the proceeds from this facility and some of its cash to pay approximately $18.9 million which constituted all of the Company s previous senior related party debt obligation and notes outstanding to former directors of PlanVista including all accrued interest.

During the second quarter of 2005, the Company defaulted on a financial covenant under this credit facility. It subsequently obtained a waiver of this default and has renegotiated the covenant. The Company was compliant with all covenants during the third quarter of 2005. This senior asset based facility was refinanced with funds from Laurus as noted above.

(b) <u>*Senior Debt*</u> As a result of the acquisition of PlanVista, the Company assumed and guaranteed a $20.4 million secured obligation to PVC Funding Partners, LLC, an owner of approximately 20% of the outstanding Common Stock of the Company. This obligation was payable in monthly installments of $0.2 million and matured with a balloon payment of $17.6 million on May 31, 2005. It originally bore an interest rate of 6%, payable monthly in cash, which increased to 10% on December 1, 2004. Under the covenants of the senior debt obligation, PlanVista (as a wholly-owned subsidiary) was limited in its ability to transfer cash to ProxyMed (as the parent company). Additionally, the assets of PlanVista were not eligible collateral for the Company s asset-based line of credit due to covenants of the senior debt. At December 31, 2004, the balance of this senior debt was $18.4 million. On April 18, 2005, this secured obligation was repaid using funds from the new senior asset based facility with Wachovia Bank, N.A.

(c) <u>*Convertible Notes*</u> 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. No other triggers have been met through December 31, 2005.

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, 2005 and 2004 is $13.1 million. Additionally, as a result of the reduction in principal, the

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

notes are now convertible into 716,968 shares of the Company s common stock subject to achieving the revenue triggers.

(d) *Notes Payable* In February 2003, the Company financed $0.3 million for a certain liability insurance policy required for the MedUnite acquisition over 24 months at 5.25% to a third-party. As of December 31, 2004, this note had been paid in full, however, due to timing provisions in the note, it is collateralized by a letter of credit in the amount of $50,000 which is supported with restricted cash through February 2005.

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 in March 2003. At December 31, 2005 and 2004, the balance of this note payable is $0.1 million and $1.1 million respectively.

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%. At December 31, 2004, and 2005, the balance of this note payable is $0.8 million and $0.1 million respectively.

As a result of the acquisition of PlanVista, the Company also assumed notes payable to two former board members of PlanVista. The combined balance of these notes is $0.5 million at December 31, 2004. One of these board members was appointed as a director of ProxyMed as a result of the acquisition. These notes bore interest at prime plus 4% and a total of $0.2 million in interest was accrued at December 31, 2004. Both principal and interest were due on December 1, 2004; however, repayment of principal and accrued interest are expressly subordinated to prior payment of the Senior Debt, both of which were repaid in April 2005.

The Company also assumed an unsecured note payable that financed a certain liability policy of PlanVista that was required as part of the acquisition. This note bears interest at 8.5% and is payable to a third-party. As of December 31, 2004, the balance of this note had been paid in full.

Debt as of December 31 consists of the following:

	2005	2004
	(In thousands)	
Related party debt	$	$ 18,394
Convertible debt	13,137	13,137
Line of credit	7,498	
Notes payable	4,420	2,384
	25,055	33,915
Less: current maturities	(8,583)	(20,572)
	$ 16,472	$ 13,343

As of December 31, 2005, debt payments over the next several years are as follows. The amounts assume no conversion of the convertible notes:

	(In thousands)
2006	$ 8,583
2007	786
2008	13,997
2009	941
2010	748
	$ 25,055

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(12) Income Taxes

The income tax provision for the years ended December 31 is as follows:

	2005	2004	2003
		(In thousands)	
Current:			
Federal	$	$	$
State		40	
		40	
Deferred:			
Federal			
State			
Income tax provision	$	$ 40	$

This income tax provision differs from the amount computed by applying the statutory federal income tax rate to the net loss reflected on the Consolidated Statements of Operations in the three years ended December 31 due to the following for the years indicated:

	2005		2004		2003	
	$ Amount	%	$ Amount	%	$ Amount	%
			(In thousands)			
Federal income tax benefit at statutory rate	(35,799)	(34.0)	(1,278)	(34.0)	(1,700)	(34.0)
State income tax benefit	(2,562)	(2.4)	(133)	(3.5)	(174)	(3.5)
Non-deductible items	13,907	13.2	(90)	(2.4)	205	4.1
Increase in valuation allowance	24,454	23.2	1,541	41.1	1,669	33.4
Total provision	$		$ 40	1.2%	$	

The significant components of the deferred tax asset account are as follows at December 31, 2005 and 2004:

	2005	2004
	(In thousands)	
Net operating losses Federal	$ 73,408	$ 69,110
Net operating losses State	8,548	8,048
Depreciation and amortization	7,747	
Capitalized start up costs	1,456	3,951
Other net	4,627	3,889
Total deferred tax assets	95,786	84,998
Less valuation allowance	(95,786)	(71,054)
Net deferred tax assets		13,944
Depreciation and amortization		(13,944)
Net deferred tax assets	$	$

Based on the weight of available evidence, a valuation allowance has been provided to offset the entire net deferred tax asset amount.

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Notes to Consolidated Financial Statements (Continued)

Total net operating loss carryforwards at December 31, 2005, are $235.4 million, of which $84.4 million and $54.5 million are attributed to the acquisitions of PlanVista and MedUnite, respectively. These net operating losses will expire between 2013 and 2025. Due to the changes in ownership control of the Company at various dates, as defined under Internal Revenue Code Section 382, net operating losses are limited in their availability to offset current and future taxable income. The annual limitations range from $1.9 million to $11.5 million.

As a result of the change in ownership of MedUnite, the deferred tax asset attributable to MedUnite s acquired net operating loss carryforward was adjusted by approximately $22 million, which represents the amount of net operating loss that will expire unutilized.

Total income tax payments during the year ended December 31, 2004 were $78,000 which includes $53,600 related to PlanVista pre-acquisition periods. Total income tax payments during the year ended December 31, 2005, were $0.9 million as related to the payments made to the State of New York.

(13) Stock Options

ProxyMed has various stock option plans for employees, directors and outside consultants, under which both incentive stock options and non-qualified options may be issued. Under such plans, options to purchase up to 2,030,567 shares of common stock may be granted. Options may be granted at prices equal to the fair market value at the date of grant, except that incentive stock options granted to persons owning more than 10% of the outstanding voting power must be granted at 110% of the fair market value at the date of grant. In addition, as of December 31, 2005, options for the purchase of 49,753 shares to newly-hired employees remained outstanding. Stock options issued by ProxyMed generally vest within three or four years or upon a change in control of the Company, and expire up to ten years from the date granted. Stock option activity was as follows for the three years ended December 31, 2005:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price of Options
Balance, December 31, 2002	575,042	1,084,555	$ 23.27
Options authorized			
Options granted	(443,750)	443,750	$ 13.25
Options exercised		(556)	$ 12.00
Options expired/forfeited	90,521	(101,080)	$ 36.09
Balance, December 31, 2003	221,813	1,426,669	$ 19.26
Options authorized	750,000		
Options granted	(537,253)	537,253	$ 14.96
Options exercised		(1,558)	$ 10.14

Options expired/forfeited	142,835	(149,455)	$	30.80
Balance, December 31, 2004	577,395	1,812,909	$	17.04
Options authorized				
Options granted	(991,938)	991,938	$	5.90
Options exercised				
Options expired/forfeited	1,054,680	(1,054,680)	$	18.40
Balance, December 31, 2005	640,137	1,750,167	$	9.91

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The following table summarizes information regarding outstanding and exercisable options as of December 31, 2005:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 3.55 $ 15.00	1,305,785	5.8	$ 6.81	360,912	$ 9.05
$15.01 $ 18.00	250,299	3.7	$ 17.09	185,409	$ 17.02
$18.01 $ 23.00	190,750	2.5	$ 19.96	188,061	$ 19.97
$23.01 $107.85	3,333	2.6	$ 105.60	3,332	$ 105.60
	1,750,167			737,714	

The following table summarizes information regarding options exercisable as of December 31:

	2005	2004	2003
Number exercisable	737,714	996,673	825,448
Weighted average exercise price	$ 14.27	$ 19.40	$ 22.73

The weighted average grant date fair value of options granted ($2.04 in 2005, $10.51 in 2004, and $10.63 in 2003) was estimated using the Black-Scholes option pricing model in 2003 and 2004 and a Lattice model in 2005 with the following weighted average assumptions:

	2005	2004	2003
Risk-free interest rate	4.43%	4.18%	4.08%
Expected life	6.0 years	6.0 years	10.0 years
Expected volatility	84.0%	76.2%	80.8%
Expected dividend yield	0.0%	0.0%	0.0%

In March 2003, the Company granted 36,000 stock options at exercise prices of $7.60 to $9.24 per share to certain employees of MedUnite and 10,000 stock options at an exercise price of $7.60 to an executive officer of ProxyMed.

In April 2003, the six non-employee directors of ProxyMed were each granted 10,000 stock options at an exercise price of $7.28 per share. Such options were granted pursuant to the Company s approved stock option plans and are for a ten-year term and vest equally over three years from the date of grant. Additionally, in May 2003, the Company s non-employee directors were granted a total of 30,000 and 15,000 options at an exercise price of $10.63 to compensate the directors upon re-election to the board and participation in sub-committees, respectively, pursuant to guidelines adopted by the Company s Board of Directors in May 2002. The option grants for the re-election to the board are for a ten-year term and vest equally over a three-year period. Options for participation in sub-committees are for a ten year term and vest in full after five years but a portion may be accelerated to vest after each sub-committee meeting attended. Of the total sub-committee grants, 11,250 options were accelerated to vest on December 31, 2004 and the remaining 3,750 sub-committee grants vested in 2004.

In October 2003, the Compensation Committee approved grants of 125,000 and 50,000 stock options at an exercise price of $15.90 per share to the Company s then current chairman/chief executive officer and president/chief operating officer, respectively. Such options are for a ten-year term and vest equally over three years from the date of grant. Of these grants, 16,667 are still outstanding as of December 31, 2005, to our former Chief Operating Officer.

In connection with the commencement of employment of the Company s new chief financial officer in December 2003, the Company granted this executive a total of 100,000 stock options at an exercise price of $16.01

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

per share. Such options are for a ten-year term and vest equally over three years from the date of grant. All stock options expired in August 2005 upon the termination of the CFO.

During the year ended December 31, 2004, the Company granted 360,373 stock options to officers and employees at exercise prices between $7.18 and $20.05 per share. Such options are for a ten-year term and generally vest equally over the three or four years following the date of the grant. However, of these options, 173,120 options granted to employees of PlanVista upon its acquisition by ProxyMed will vest two-thirds on the first anniversary date of the grant and one-third on the third anniversary date of the grant. Since these options were granted at an exercise price of $17.74, which was below the $19.00 market price at the time of issuance, the Company records 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, and 2005, the Company recorded charges of $0.1 million and $0.1 million respectively for these options.

In March 2004, 26,880 options at an exercise price of $17.74 per share were 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% will vest on each of the three month and six month anniversaries of the change in control. The Company recorded $0.1 million in compensation expense associated with this grant in the three months ended March 31, 2004 based on the 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.

Additionally, in March 2004, 15,000 stock options at an exercise price of $17.50 per share were granted to a new director upon appointment to the Company s board of directors as result of the acquisition of PlanVista. Such options are for a ten-year term and vest equally over the three years following the date of the grant.

In June 2004, the Company s outside directors were granted a total of 35,000 and 15,000 options at an exercise price of $20.00 to compensate the directors upon re-election to the board and for participation on a committee, respectively, pursuant to guidelines adopted by the Company s Board of Directors in May 2002. Option grants for the re-election to the board are for a ten-year term and vest immediately. Options for participation in committees are for a ten-year term and vest in full after three years but a portion may be accelerated to vest after each committee meeting attended. As of December 31, 2004, the 15,000 committee options granted for the 2004-2005 term were vested.

As noted in Note 3, stock options to purchase 10,000 shares of the Company s Common Stock at an exercise price of $16.00 were granted to a former executive of the Company who purchased the Company s contract manufacturing assets on June 30, 2004. Such options were valued at $68,000 and included in the loss on disposal of assets for the year ended December 31, 2004. These options are for a three-year term and 5,000 options vest the end of each of next two years.

As a result of PlanVista s former chief executive officer s change in status and modification to the original stock option award as described in Note 2(a), the Company is amortizing the $0.1 million value of these options as a non-cash compensation charge in its consolidated statement of operations over the 30-month period of the agreement in proportion to the vesting schedule of the stock options. The value of these options was computed utilizing a Black-Scholes model using the following assumptions: risk-free interest rate of 2.8%, expected life of 2.5 years, expected volatility of 65% and no dividend yield. Additionally, each reporting period the Company must measure the value of these options and record any increase in value as a period charge. As of December 31, 2004, the value of these options had decreased below their original value and no charge is required to be recorded for the year ended December 31, 2004.

In December 2004, the Company s new chairman and interim chief executive officer was granted stock options to purchase 75,000 shares of the Company s Common Stock at an exercise price of $7.10 per share in connection with his consulting agreement with the Company. Such options are for ten years and vest equally over the next 12 months at the rate of 6,250 per month. These options ceased to vest upon the termination of the Consulting Agreement in May 2005 and resulted in a compensation charge of approximately $87,000. A compensation charge

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Notes to Consolidated Financial Statements (Continued)

of $14,400 for these stock options was recorded after each monthly vesting amount based on a Black-Scholes model using the following assumptions: risk-free interest rate of 2.9%, expected life of 2 years, expected volatility of 55% and no dividend yield. Subsequently in January 2005, he was granted stock options to purchase another 25,000 shares of the Company s Common Stock at $9.87 per share in his capacity as chairman of the board. Such options were for ten years and vest equally over the next twelve months at the rate of 2,083 per month. There is no compensation charge associated with these options.

In May 2005, the Company granted its new CEO stock options to purchase 600,000 shares of ProxyMed s Common Stock at an exercise price of $6.45 per share. Pursuant to the aforementioned stock option agreements: 400,000 shares vest monthly over 4 years with 1/48 vesting each month. The other 200,000 shares have market triggers when the Company s Common Stock reaches market prices of $15, $20, $25 and $30 such that each 50,000 shares will vest when the closing price per share of the Company s Common Stock reaches and maintains each trigger amount for ten consecutive trading days.

In October 2005, the compensation committee approved grants of 50,000 stock options at an exercise price of $3.55 per share to its chief financial officer. Such options are for a ten-year term and vest over four years.

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PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(14) Supplemental Disclosure of Cash Flow Information

	Year Ending December 31, 2005	2004	2003
	(In thousands)		
Cash paid for interest	$ 2,053	$ 1,875	$ 932
Cash paid for income taxes	880		
Increase in purchase price of acquisition of PlanVista related to settlement of New York state tax liability	875		
Acquisition of businesses:			
Common stock issued for businesses acquired		59,760	
Debt issued for businesses acquired			
Other acquisition costs accrued		1,328	
Other non-cash adjustments		(642)	
Details of acquisitions:			
Working capital components, including cash acquired		(388)	
Property and equipment		(658)	
Goodwill		(62,829)	
Intangible assets acquired:			
Customer Relationships		(24,600)	
Purchased Technology		(1,180)	
Provider Network		(16,200)	
Long-term debt		44,889	
Other long-term liabilities, net		520	
Cash acquired in acquisitions		782	
Net cash acquired from acquisitions	$	$ 782	$
Disposition of assets:			
Detail of disposition:			
Working capital components, other than cash	$	$ 3,742	$
Property and equipment, net		757	
Net cash provided from disposition	$	$ 4,499	$
Non-cash financing activities:			
Issuance of 500,000 shares of Common Stock in conjunction with revolving credit facility and term debt with Laurus	$ 2,370	$	$

(15) Concentration of Credit Risk

Substantially all of ProxyMed s accounts receivables are due from healthcare providers, such as physicians and various healthcare institutional suppliers (payers, laboratories and pharmacies). Collateral is not required.

For the years ended December 31, 2005, 2004 and 2003 approximately 8%, 8% and 15%, respectively, of consolidated revenues and for all three periods approximately 10% of revenues in the Transaction Services segment, were from NDCHealth, a former shareholder of MedUnite.

Additionally, for the years ended December 31, 2005 and 2004 and 2003, approximately 7%, 9% and 12% of consolidated revenues, and 50%, 45% and 34% of Laboratory Communication segment revenues, respectively were

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Notes to Consolidated Financial Statements (Continued)

from a single customer for the sale, lease and service of communication devices. The potential loss of this customer would materially affect the Company s Laboratory Communication Solutions segment operating results.

(16) Employee Benefit Plans

(a) *401(k) Savings Plan* ProxyMed has a 401(k) retirement plan for substantially all employees who meet certain minimum lengths of employment and minimum age requirements. Contributions may be made by employees up to the lessor of 60% of their annual compensation, or the maximum IRS limit. Discretionary matching contributions are approved or declined by the Company s board of directors each year. There were no matching contributions during 2005, 2004 or 2003. Funding of matching contributions each year may be offset by forfeitures from terminated employees. As of December 31, 2005 and 2004, there was approximately $0.3 million in available forfeitures that the Company intends to use to offset future matching contributions. In January 2006, the Company used $0.1 million of the available forfeitures to fund matching contributions.

At the time the Company acquired PlanVista in March 2004 (see Note 2(a)), eligible PlanVista employees were immediately able to participate in the ProxyMed 401(k) Plan. The Company has filed a plan of termination for the PlanVista 401(k) Plan with the Internal Revenue Service. During the fourth quarter of 2005, the Company received approval from the IRS to terminate the Plan.

(b) *Self-Insurance* In July 2004, the Company commenced a program of self-insuring its medical and dental insurance plans. Prior to this time, the Company participated in several premium only plans with various insurance carriers. Under this self-insurance arrangement, the Company pays a third-party administrator to handle claims processing and other administrative functions. For medical and dental insurance claims, the Company has purchased stop-gap coverage which limits its claims exposure on a per employee basis. For disability insurance, there is no such limitation. For the years ended December 31, 2005 and 2004, the Company accrued $0.6 million and $1.3 million respectively towards its self-insurance exposure. Through fiscal year 2005, approximately $3.5 million in claims have been paid under this self-insurance program. This represents amounts set aside for claims in 2005 and for amounts set aside in 2004 that were not actually paid until 2005. The self-insurance program was cancelled as of December 31, 2005 and the Company s employees are now covered under a commercial carrier for its medical and dental plans.

(c) *Deferred Compensation Plan* As part of our acquisition of PlanVista, the Company has a deferred compensation plan with three former officers of PlanVista and its predecessor companies. The deferred compensation, which together with accumulated interest is accrued but unfunded, is distributable in cash after retirement or termination of employment, and amounted to approximately $0.7 million and $0.8 million at December 31, 2005 and 2004, respectively. All participants began receiving such deferred amounts, together with interest at 12% annually, at age 65.

(17) Contingencies

(a) *Litigation* In December of 2001, Insurdata Marketing Services, Inc., referred to as IMS, filed a lawsuit against HealthPlan Services, Inc., referred to as HPS, a former subsidiary of PlanVista, for unspecified damages in excess of $75,000. The complaint alleges that HPS failed to pay commissions to IMS pursuant to an arbitration award rendered in 1996. On January 10, 2005, the court granted summary judgment to IMS on the issue of liability for the arbitration award. The Company filed an appeal on the issue of liability. On September 26, 2005, the Company entered into a settlement to pay a total of $775,000 in exchange for a release from the entire claim, with an initial payment of

$225,000 and the rest due in equal installments over five subsequent months. The Company is paying these installments in accordance with the settlement agreement.

In early 2000, four named plaintiffs filed a class action against Fidelity Group, Inc., referred to as Fidelity, HPS, Third Party Claims Management, and others, for unspecified damages, and the action is currently pending in the United States District Court for the District of South Carolina, Charleston division. The complaint stems from

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Notes to Consolidated Financial Statements (Continued)

the failure of a Fidelity insurance plan, and alleges unfair and deceptive trade practices; negligent undertaking; fraud; negligent misrepresentation; breach of contract; civil conspiracy; and RICO violations against Fidelity and its contracted administrator, HPS. Two principals of the Fidelity plan have been convicted of insurance fraud and sentenced to prison in a separate proceeding. The class was certified and such certification was eventually upheld on appeal. Shortly after the case was remanded to the trial judge as a certified class for further discovery, the Company filed a motion to de-certify the matter based upon evidence not available to the trial judge when he first certified the class. While that motion was pending, the parties agreed to mediate the case before the trial judge. The mediation was successful and the parties agreed orally to settle the matter. The Company believes that its obligations under the settlement will be paid by its insurance carrier. Although the Company is currently working to finalize a formal settlement agreement, notice of class settlement, and preliminary order approving the settlement, there can be no assurance that the settlement will be approved or that objections will not be raised.

In 2004, the Company filed a tax appeal in the State of New York contesting a Notice of Deficiency issued by the State of New York to PlanVista Solutions, Inc. The notice involved taxes claimed to be due for the tax years ending December 31, 1999, through December 31, 2001. The amount due, including interest and penalties through September 30, 2005, is $3.1 million. The Company recently withdrew the tax appeal and entered into an installment payment agreement with the State of New York. Payment on the tax liability was repaid in a lump sum of $500,000 before October 30, 2005, and the remainder in equal installments that began in November 2005 with the State of New York. The Company entered into an agreement with a third party tax service provider to be reimbursed for 70% of the liability ultimately agreed to with the State of New York, but not to exceed $2 million. The Company received the $2.0 million payment from the third party in September 2005.

In December 2004, Honolulu Disposal Service, Inc. et al, referred to as HDSI, sued American Benefit Plan Administrators, Inc., referred to as ABPA, a former subsidiary of PlanVista Corporation, in the Circuit Court of the First Circuit of the State of Hawaii, alleging damages of $5,700,000 for failure to properly conduct payroll audits during the period of 1982 through 1996. The case was removed to the U.S. District Court for the District of Hawaii. Substantial discovery has taken place. ABPA has filed a motion for summary judgment seeking judgment in its favor on all claims in the case; that motion is scheduled to be heard by the federal court on March 6, 2006. If the case is not resolved via summary judgment, trial is scheduled for May 9, 2006. The Company is contesting the plaintiffs claims vigorously, but is unable to predict the outcome of the case or any potential liability. The Company tendered the defense and indemnity for the HDSI lawsuit to Hawaii Laborers Pension Trust Fund et al, referred to as HLPTF. HLPTF agreed to advance post-tender defense costs to ABPA, subject to a reservation of rights as to their contractual duties, but then filed a lawsuit for declaratory relief in June 2005, seeking a judicial determination on this issue of their duty to defend and/or indemnify ABPA in the HDSI action. Trial in that case is in the same federal court and is set for July 25, 2006. ABPA is vigorously defending the HLPTF suit and seeks from HLPTF indemnification for its defense costs and for any liability for damages, pursuant to the business contracts at issue in the HDSI litigation.

The Company has been named as a defendant in an action filed in December 2005 in the Eastern District of Wisconsin by Metavante Corporation. Metavante claims that the Company use of the name MedAvant and the logo in connection with healthcare transaction processing infringes trademark rights allegedly held by Metavante. Metavante has sought unspecified compensatory damages and injunctive relief. The Company believes that this action is without merit, and it is vigorously defending the Company s use of the name MedAvant and its logo. The Company does not believe the proceeding will have a material adverse effect on its business, financial condition, results of operations or cash flows.

From time to time, the Company is a party to other legal proceedings in the course of its business. The Company, however, does not expect such other legal proceedings to have a material adverse effect on its business or financial condition.

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Notes to Consolidated Financial Statements (Continued)

(b) *Disputes* The Company accrued $0.4 million as a settlement of disputed enrollment fees and rebate amounts to NDCHealth relating to periods before December 31, 2004. The Company has accrued this amount as an increase of cost of services in the Transactions Services Segment for the year ended December 31, 2004.

(c) *Other* In connection with the Company s June 1997 acquisition of its PreScribe technology used in its Prescription Services business, the Company would be obligated to pay up to $10 million to the former owner of PreScribe in the event of a divestiture of a majority interest in ProxyMed, or all or part of the PreScribe technology.

(18) Commitments and Other

(a) *Leases* ProxyMed leases certain computer and office equipment used in its transaction services business that have been classified as capital leases. The Company also leases premises and office equipment under operating leases which expire on various dates through 2010. The leases for the premises contain renewal options, and require ProxyMed to pay such costs as property taxes, maintenance and insurance. At December 31, 2005, the present value of the capital leases and the future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year (net of payments to be received under subleases) are as follows:

	Capital Leases	Operating Leases
	(In thousands)	
2006	$ 6	$ 1,783
2007	1	1,791
2008		1,220
2009		957
2010		181
Total minimum lease payments	7	$ 5,932
Less amount representing interest	(1)	
Present value of minimum lease payments	$ 6	

The Company recognizes rent expense on a straight-line basis over the related lease term. Total rent expense for all operating leases amounted to $2.2 million in 2005, $2.5 million in 2004, and $2.1 million in 2003. The current portion of capital leases is included in accounts payable and other accrued expenses and the long-term portion of capital leases is included in other long-term liabilities in the balance sheet at December 31, 2004 and 2003.

(b) *Settlement of Contract Dispute* In September 2002, the Company favorably settled a contract dispute in the amount of $0.3 million. The settlement resulted in the issuance of a promissory note receivable to the Company, which was recorded at its present value of $0.3 million. The present value of the promissory note, less legal expenses of $34,000, was reported as other income in the year ended December 31, 2002. Under the terms of the promissory note, payments of $25,000 were to be made each quarter over the next three years starting October 2002. As of December 31, 2004, the note had been paid in full.

(c) *Employment Agreements* The Company 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. The Company s aggregate commitment under these agreements is $0.9 million at December 31, 2005.

PROXYMED, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(19) Related Party Transactions

In March 2001, a senior executive of the Company entered into an uncollateralized promissory note for $45,400 for amounts previously borrowed from the Company. The promissory note calls for minimum bi-weekly payments of $350 deducted directly from the executive s payroll until the note is paid in full on or before February 2006. The note is non-interest bearing but interest is imputed annually based on the Internal Revenue Service Applicable Federal Rate at the time the note was originated (4.98%). Under terms of the promissory note, if the executive is terminated without cause, the note is due in full after nine months from the date of termination as long as the scheduled bi-weekly payments continue to be made. As of December 31, 2005, the note has been paid in full.

In June 2003, prior to its acquisition of PlanVista (see Notes 2(a) and 6), ProxyMed entered into a joint distribution and marketing agreement with PlanVista. PlanVista was controlled by an affiliate of Commonwealth Associates Group Holdings, LLC, whose principal, Michael Falk, was a director of both ProxyMed and PlanVista. Additionally, one former senior executive of ProxyMed had an immaterial ownership interest in PlanVista.

As described in Note 11 (a), the Company assumed and guaranteed a $20.4 million secured obligation to PVC Funding Partners, LLC, owner of approximately 20% of the outstanding Common Stock of the Company. This obligation was repaid in full in April 2005.

On December 7, 2005, we entered into a loan transaction with Laurus Master Fund, Ltd. (Laurus) a Selling Shareholder, pursuant to which Laurus extended $20.0 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 beginning April 2006 and continuing 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 options. 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 assets (including all intellectual property) to secure our obligations under the loan agreement.

As described in Note 11 (c), the Company currently has $13.1 million of convertible notes outstanding to former shareholders of MedUnite. During the years ending December 31, 2005, 2004, and 2003, revenue generated from these shareholders totaled $14.8 million, $19.7 million, and $16.7 million, respectively.

(20) Subsequent Events

(a) *Management Changes* On January 7, 2006, the Company entered into an agreement with David Oles pursuant to which Mr. Oles would resign as General Counsel of the Company effective January 31, 2006, and terminate his employment agreement.

(b) *Acquisitions* On February 14, 2006, we acquired substantially all the assets and operations of Zeneks, Inc., a privately held bill negotiation services company based in Tampa, Florida for $225,000 cash plus certain assumed liabilities. Zeneks was incorporated in 1998 and was established as a medical cost containment company. They have relationships with numerous providers throughout the country. We expect to integrate the Zeneks operations into our current bill negotiation system by the end of the first quarter of fiscal 2006.

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Notes to Consolidated Financial Statements (Continued)

(21) Quarterly Financial Data (unaudited)

The following table summarizes the quarterly consolidated statement of operations data for each of the twelve quarters in the years ended December 31, 2005 and 2004. The data is derived from and is qualified by reference to the Company s audited financial statements, which appear elsewhere in this document.

The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes.

	2005 Quarter Ended(2)			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands except share and per share data)			
Net revenues	$ 21,714	$ 20,781	$ 17,769	$ 17,255
Operating loss	$ (1,190)	$ (2,466)	$ (98,360)	$ (1,161)
Loss from continuing operations	$ (1,791)	$ (2,886)	$ (98,779)	$ (1,838)
Net loss applicable to common shareholders	$ (1,791)	$ (2,886)	$ (98,779)	$ (1,838)
Basic and diluted net loss per share	$ (0.14)	$ (0.23)	$ (7.78)	$ (0.14)
Basic and diluted weighted average common shares outstanding	12,626,567	12,664,516	12,703,702	12,834,137

	2004 Quarter Ended(1)			
	March 31	**June 30**	**September 30**	**December 31**
Net revenues	$ 20,504	$ 24,649	$ 22,511	$ 22,582
Operating loss	$ (43)	$ (264)	$ (450)	$ (1,217)
Loss from continuing operations	$ (427)	$ (772)	$ (1,028)	$ (1,573)
Net loss applicable to common shareholders	$ (427)	$ (772)	$ (1,028)	$ (1,573)
Net loss per share (basic and diluted)	$ (0.05)	$ (0.06)	$ (0.08)	$ (0.12)
Basic and diluted weighted average common shares outstanding	8,570,731	12,625,260	12,626,066	12,626,182

(1) Includes operations of PlanVista from March 2, 2004.

(2) Includes an impairment charge of $96.4 million, see Note 9.

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PROXYMED, INC. AND SUBSIDIARIES

SCHEDULE II Valuation and Qualifying Accounts

	Allowance for Doubtful Accounts				
		Additions			
Year Ended December 31,	**Balance at Beginning of Year**	**Charged to Costs and Expenses**	**Charged to Other Accounts(1)(2)**	**Deductions(3)**	**Balance at End of Year**
			(In thousands)		
2005	$ 3,168	695	4,777	3,115	$ 5,525
2004	$ 882	858	7,138	5,710	$ 3,168
2003	$ 1,096	152	803	1,169	$ 882

(1) Includes amounts charged against revenue in 2003 ($803), 2004 ($1,997) and 2005 ($4,777)

(2) Includes amounts acquired through acquisitions in 2003 ($-0-), and 2004 ($5,141), and 2005 ($-0-)

(3) Primarily write-off of bad debts and amounts charged against revenues, net of recoveries