

Emdeon Inc.  
Form 10-Q  
August 12, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2013

Commission file number 333-182786

**EMDEON INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of

Incorporation or Organization)

**3055 Lebanon Pike, Suite 1000**

**Nashville, TN**  
(Address of Principal Executive Offices)

**20-5799664**  
(I.R.S. Employer

Identification No.)

**37214**  
(Zip Code)

**(615) 932-3000**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

| Class                                 | Outstanding as of August 8, 2013 |
|---------------------------------------|----------------------------------|
| <b>Common Stock, \$0.01 par value</b> | <b>100</b>                       |

\* The registrant is a voluntary filer of certain reports required to be filed by companies under Section 13 or 15(d) of the Securities and Exchange Act of 1934 and has filed all reports that would have been required to have been filed by the registrant during the preceding 12 months had it been subject to such filing requirements during the entirety of such period.

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**Emdeon Inc.**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Table of Contents****Emdeon Inc.****Condensed Consolidated Balance Sheets****(unaudited and amounts in thousands, except share and per share amounts)**

|   | <b>June 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| Current assets:   |                          |                              |
| Cash and cash equivalents   | \$ 52,919                | \$ 31,763                    |
| Accounts receivable, net of allowance for doubtful accounts of \$4,399 and \$3,585 at June 30, 2013 and December 31, 2012, respectively | 203,734                  | 190,021                      |
| Deferred income tax assets  | 5,043                    | 4,184                        |
| Prepaid expenses and other current assets   | 30,322                   | 28,160                       |
| <b>Total current assets</b>   | <b>292,018</b>           | <b>254,128</b>               |
| Property and equipment, net   | 276,685                  | 264,852                      |
| Goodwill  | 1,502,531                | 1,488,134                    |
| Intangible assets, net  | 1,683,019                | 1,730,089                    |
| Other assets, net   | 25,129                   | 29,694                       |
| <b>Total assets</b>   | <b>\$ 3,779,382</b>      | <b>\$ 3,766,897</b>          |
| <b>LIABILITIES AND EQUITY</b>   |                          |                              |
| Current liabilities:  |                          |                              |
| Accounts payable  | \$ 12,244                | \$ 6,223                     |
| Accrued expenses  | 125,792                  | 101,805                      |
| Deferred revenues   | 9,656                    | 9,342                        |
| Current portion of long-term debt   | 22,094                   | 17,595                       |
| <b>Total current liabilities</b>  | <b>169,786</b>           | <b>134,965</b>               |
| Long-term debt, excluding current portion   | 2,017,744                | 1,999,414                    |
| Deferred income tax liabilities   | 447,394                  | 466,921                      |
| Tax receivable agreement obligations to related parties   | 136,602                  | 125,003                      |
| Other long-term liabilities   | 10,651                   | 8,443                        |
| Commitments and contingencies   |                          |                              |
| Equity:   |                          |                              |
| Common stock (par value, \$.01), 100 shares authorized and outstanding at June 30, 2013 and December 31, 2012, respectively             |                          |                              |
| Additional paid-in capital  | 1,134,266                | 1,130,968                    |
| Accumulated other comprehensive income (loss)   | (313)                    | (3,789)                      |
| Accumulated deficit   | (136,748)                | (95,028)                     |
| <b>Total equity</b>   | <b>997,205</b>           | <b>1,032,151</b>             |
| <b>Total liabilities and equity</b>   | <b>\$ 3,779,382</b>      | <b>\$ 3,766,897</b>          |

See accompanying notes to unaudited condensed consolidated financial statements.



**Table of Contents****Emdeon Inc.****Condensed Consolidated Statements of Operations****(unaudited and amounts in thousands)**

|   | <b>Three Months<br/>Ended June 30,<br/>2013</b> | <b>Three Months<br/>Ended June 30,<br/>2012</b> | <b>Six Months<br/>Ended June 30,<br/>2013</b> | <b>Six Months<br/>Ended June 30,<br/>2012</b> |
|---|---|---|---|---|
| Revenue   | \$ 311,485                                      | \$ 294,467                                      | \$ 617,187                                    | \$ 580,503                                    |
| Costs and expenses:   |   |   |   |   |
| Cost of operations (exclusive of depreciation and amortization below) | 193,816   | 180,090   | 383,122                                       | 353,236                                       |
| Development and engineering   | 7,644   | 8,590   | 15,366  | 17,676  |
| Sales, marketing, general and administrative                          | 42,945  | 39,040  | 82,056  | 75,169  |
| Depreciation and amortization   | 43,946  | 46,626  | 90,762  | 91,782  |
| Accretion   | 7,459   | 8,579   | 11,599  | 12,346  |
| Operating income  | 15,675  | 11,542  | 34,282  | 30,294  |
| Interest expense, net   | 37,974  | 42,902  | 79,389  | 88,641  |
| Loss on extinguishment of debt  | 23,160  | 21,853  | 23,160  | 21,853  |
| Income (loss) before income tax provision (benefit)                   | (45,459)  | (53,213)  | (68,267)                                      | (80,200)                                      |
| Income tax provision (benefit)  | (17,191)  | (17,820)  | (26,547)                                      | (27,272)                                      |
| Net income (loss)   | \$ (28,268)                                     | \$ (35,393)                                     | \$ (41,720)                                   | \$ (52,928)                                   |

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****Emdeon Inc.****Condensed Consolidated Statements of Comprehensive Income (Loss)****(unaudited and amounts in thousands)**

|   | <b>Three Months<br/>Ended June 30,<br/>2013</b> | <b>Three Months<br/>Ended June 30,<br/>2012</b> | <b>Six Months<br/>Ended June 30,<br/>2013</b> | <b>Six Months<br/>Ended June 30,<br/>2012</b> |
|---|---|---|---|---|
| Net income (loss)   | \$ (28,268)                                     | \$ (35,393)                                     | \$ (41,720)                                   | \$ (52,928)                                   |
| Other comprehensive income (loss):                        |   |   |   |   |
| Changes in fair value of interest rate swap, net of taxes | 3,147   | (4,192)   | 3,575   | (2,334)                                       |
| Foreign currency translation adjustment                   | (64)  | 40  | (99)  | 234   |
| Other comprehensive income (loss)                         | 3,083   | (4,152)   | 3,476   | (2,100)                                       |
| Total comprehensive income (loss)                         | \$ (25,185)                                     | \$ (39,545)                                     | \$ (38,244)                                   | \$ (55,028)                                   |

See accompanying notes to unaudited condensed consolidated financial statements.



**Table of Contents****Emdeon Inc.****Condensed Consolidated Statements of Equity**

(unaudited and amounts in thousands, except share amounts)

|   | Common Stock<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Equity |
|---|------------------------|--------|----------------------------------|-----------------------------------|--|-----------------|
| <b>Balance at January 1, 2012</b>   | 100                    | \$     | \$ 1,120,676                     | \$ (16,693)                       | \$ (194)   | \$ 1,103,789    |
| Issuance of shares in connection with equity compensation plans, net of taxes |                        |        | 317                              |                                   |  | 317             |
| Repurchase of Parent common stock   |                        |        | (317)                            |                                   |  | (317)           |
| Reclassification of liability awards to equity awards                         |                        |        | 3,675                            |                                   |  | 3,675           |
| Net loss  |                        |        |                                  | (52,928)                          |  | (52,928)        |
| Foreign currency translation adjustment                                       |                        |        |                                  |                                   | 234  | 234             |
| Change in fair value of interest rate swap, net of taxes                      |                        |        |                                  |                                   | (2,334)  | (2,334)         |
| <b>Balance at June 30, 2012</b>   | 100                    | \$     | \$ 1,124,351                     | \$ (69,621)                       | \$ (2,294)   | \$ 1,052,436    |
| <b>Balance at January 1, 2013</b>   | 100                    | \$     | \$ 1,130,968                     | \$ (95,028)                       | \$ (3,789)   | \$ 1,032,151    |
| Equity compensation expense   |                        |        | 3,547                            |                                   |  | 3,547           |
| Repurchase of Parent common stock   |                        |        | (249)                            |                                   |  | (249)           |
| Net loss  |                        |        |                                  | (41,720)                          |  | (41,720)        |
| Foreign currency translation adjustment                                       |                        |        |                                  |                                   | (99)   | (99)            |
| Change in fair value of interest rate swap, net of taxes                      |                        |        |                                  |                                   | 3,575  | 3,575           |
| <b>Balance at June 30, 2013</b>   | 100                    | \$     | \$ 1,134,266                     | \$ (136,748)                      | \$ (313)   | \$ 997,205      |

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****Emdeon Inc.****Condensed Consolidated Statements of Cash Flows****(unaudited and amounts in thousands)**

|  | Six Months Ended<br>June 30, 2013 | Six Months Ended<br>June 30, 2012 |
|--|-----------------------------------|-----------------------------------|
| <b>Operating activities</b>  |                                   |                                   |
| Net income (loss)  | \$ (41,720)                       | \$ (52,928)                       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                   |                                   |
| Depreciation and amortization  | 90,762                            | 91,782                            |
| Accretion  | 11,599                            | 12,346                            |
| Equity compensation  | 3,547                             |                                   |
| Deferred income tax expense (benefit)  | (27,451)                          | (28,066)                          |
| Amortization of debt discount and issuance costs   | 4,717                             | 5,073                             |
| Loss on extinguishment of debt   | 22,828                            | 18,293                            |
| Other  | 1,861                             | 227                               |
| Changes in operating assets and liabilities:   |                                   |                                   |
| Accounts receivable  | (10,208)                          | 1,062                             |
| Prepaid expenses and other   | (697)                             | (3,666)                           |
| Accounts payable   | 5,498                             | 3,231                             |
| Accrued expenses, deferred revenue and other liabilities                                 | 23,539                            | 7,138                             |
| Tax receivable agreement obligations to related parties                                  | (103)                             | (114)                             |
| <b>Net cash provided by (used in) operating activities</b>                               | <b>84,172</b>                     | <b>54,378</b>                     |
| <b>Investing activities</b>  |                                   |                                   |
| Purchases of property and equipment  | (33,246)                          | (27,430)                          |
| Payments for acquisitions, net of cash acquired  | (18,291)                          | (59,013)                          |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>(51,537)</b>                   | <b>(86,443)</b>                   |
| <b>Financing activities</b>  |                                   |                                   |
| Proceeds from Term Loan Facility   |                                   | 70,351                            |
| Debt principal payments  | (6,472)                           | (6,312)                           |
| Payments on Revolving Facility   |                                   | (15,000)                          |
| Payment of loan costs  | (2,178)                           | (2,060)                           |
| Repayment of deferred financing arrangements   | (1,844)                           |                                   |
| Repurchase of Parent common stock  | (250)                             | (317)                             |
| Other  | (735)                             | (135)                             |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>(11,479)</b>                   | <b>46,527</b>                     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | <b>21,156</b>                     | <b>14,462</b>                     |
| Cash and cash equivalents at beginning of period   | 31,763                            | 37,925                            |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 52,919</b>                  | <b>\$ 52,387</b>                  |

See accompanying notes to unaudited condensed consolidated financial statements.



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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited and amounts in thousands, except share and per share amounts)**

**1. Nature of Business and Organization**

***Nature of Business***

Emdeon Inc. (the Company), through its subsidiaries, is a provider of revenue and payment cycle management and clinical information exchange solutions, connecting payers, providers and patients of the United States healthcare system. The Company's product and service offerings integrate and automate key business and administrative functions for healthcare payers and healthcare providers throughout the patient encounter, including pre-care patient eligibility and benefits verification and enrollment, clinical information exchange, claims management and adjudication, payment integrity, payment distribution, payment posting and denial management and patient billing and payment processing.

***Organization***

The Company was formed as a Delaware limited liability company in September 2006 and converted into a Delaware corporation in September 2008 in anticipation of the Company's August 2009 initial public offering (the IPO).

On November 2, 2011, pursuant to an Agreement and Plan of Merger among the Company, Beagle Parent Corp. (Parent) and Beagle Acquisition Corp. (Merger Sub), Merger Sub merged with and into the Company with the Company surviving the merger (the Merger). Subsequent to the Merger, the Company became an indirect wholly-owned subsidiary of Parent, which is controlled by affiliates of The Blackstone Group L.P. (Blackstone).

**2. Basis of Presentation**

***Principles of Consolidation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC) Guidelines, Rules and Regulations (Regulation S-X) and, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of results for the unaudited interim periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The results of operations for the interim period are not necessarily indicative of the results to be obtained for the full fiscal year. All material intercompany accounts and transactions have been eliminated in the unaudited condensed consolidated financial statements.

***Reclassifications***

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

***Recent Accounting Pronouncements***

On January 1, 2013, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2013-02, which requires an entity to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of its income statement or in its notes, significant amounts reclassified from accumulated other comprehensive income by the net income line item. The adoption of this update had no material impact on the Company's unaudited condensed consolidated financial statements.

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****3. Concentration of Credit Risk**

The Company's revenue is primarily generated in the United States. Changes in economic conditions, government regulations or demographic trends, among other matters, in the United States could adversely affect the Company's revenue and results of operations.

The Company maintains its cash and cash equivalent balances in either insured depository accounts or money market mutual funds. The money market mutual funds are limited to investments in low-risk securities such as United States or government agency obligations, or repurchase agreements secured by such securities.

**4. Business Combinations**

In June 2013, the Company acquired all of the equity interests of Goold Health Systems (Goold), a technology-enabled provider of pharmacy benefit and related services primarily to State Medicaid agencies across the nation.

In May 2012, the Company acquired all of the equity interests of TC3 Health, Inc. (TC3), a technology-enabled provider of cost containment and payment integrity solutions for healthcare payers.

The following table summarizes certain information related to these acquisitions. The preliminary values of the consideration transferred, assets acquired and liabilities assumed in the Goold acquisition, including related tax effects, are subject to receipt of a final valuation and a final working capital settlement.

|  | <b>Goold</b>     | <b>TC3</b>       |
|--|------------------|------------------|
| <b>Total Consideration Fair Value at Acquisition Date:</b> |                  |                  |
| Cash paid at closing                                       | \$ 19,391        | \$ 61,351        |
| Contingent consideration                                   | 5,717            |                  |
| Other  | (701)            | 383              |
|  | <b>\$ 24,407</b> | <b>\$ 61,734</b> |
| <b>Allocation of the Consideration Transferred:</b>        |                  |                  |
| Cash   | \$ 1,100         | \$ 2,340         |
| Accounts receivable  | 3,505            | 2,662            |
| Deferred income tax assets                                 |                  | 348              |
| Prepaid expenses and other current assets                  | 681              | 155              |
| Property and equipment                                     | 7,055            | 10,414           |
| Identifiable intangible assets:                            |                  |                  |
| Tradename  |                  | 530              |
| Noncompetition agreements                                  | 550              | 1,300            |
| Customer relationships                                     | 5,380            | 18,810           |
| Goodwill   | 14,397           | 38,634           |
| Accounts payable   | (532)            |                  |
| Accrued expenses   | (2,452)          | (4,783)          |
| Deferred revenues  | (101)            |                  |
| Current maturities of long-term debt                       | (218)            |                  |
| Deferred income tax liabilities                            | (4,958)          | (8,592)          |

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Other long-term liabilities (84)

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Total consideration transferred | \$ 24,407 | \$ 61,734 |
|---------------------------------|-----------|-----------|

**Acquisition costs in sales, marketing, general and administrative expense:**

|  |        |        |
|--|--------|--------|
| For the three months ended June 30, 2013 | \$ 254 | \$     |
| For the three months ended June 30, 2012 | \$     | \$ 182 |
| For the six months ended June 30, 2013   | \$ 258 | \$     |
| For the six months ended June 30, 2012   | \$     | \$ 513 |

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(unaudited and amounts in thousands, except share and per share amounts)

|   | Goold    | TC3      |
|---|----------|----------|
| <b>Other Information:</b>                           |          |          |
| Gross contractual accounts receivable               | \$ 3,505 | \$ 2,943 |
| Amount not expected to be collected                 | \$       | \$ 281   |
| Goodwill expected to be deductible for tax purposes | \$       | \$       |

The Company generally recognizes goodwill attributable to the assembled workforce and expected synergies among the operations of acquired entities and the Company's existing operations. In the case of the Company's acquisitions of operating companies, synergies generally have resulted from the elimination of duplicative facilities and personnel costs and cross selling opportunities among the Company's existing customer base.

**5. Goodwill and Intangible Assets**

Goodwill activity during the six months ended June 30, 2013 was as follows:

|                              | Payer      | Ambulatory<br>Provider | Provider<br>Revenue Cycle<br>Solutions | Pharmacy   | Total        |
|------------------------------|------------|------------------------|--|------------|--------------|
| Balance at December 31, 2012 | \$ 712,585 | \$ 289,812             | \$ 315,054                             | \$ 170,683 | \$ 1,488,134 |
| Acquisitions                 |            |                        |  | 14,397     | 14,397       |
| Balance at June 30, 2013     | \$ 712,585 | \$ 289,812             | \$ 315,054                             | \$ 185,080 | \$ 1,502,531 |

Intangible assets subject to amortization as of June 30, 2013 consisted of the following:

|                           | Weighted<br>Average<br>Remaining<br>Life | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net          |
|---------------------------|--|-----------------------------|-----------------------------|--------------|
| Customer relationships    | 17.9                                     | \$ 1,647,190                | \$ (138,778)                | \$ 1,508,412 |
| Trade names               | 18.0                                     | 156,530                     | (13,206)                    | 143,324      |
| Non-compete agreements    | 3.2                                      | 13,350                      | (4,339)                     | 9,011        |
| Data sublicense agreement | 4.3                                      | 31,000                      | (8,728)                     | 22,272       |
| Backlog                   |  | 19,000                      | (19,000)                    |              |
| Total                     |  | \$ 1,867,070                | \$ (184,051)                | \$ 1,683,019 |

Amortization expense was \$53,000 and \$56,229 for the six months ended June 30, 2013 and 2012, respectively.

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(unaudited and amounts in thousands, except share and per share amounts)

Aggregate future amortization expense for intangible assets is estimated to be:

|                  |              |
|------------------|--------------|
| 2013 (remainder) | \$ 50,213    |
| 2014             | 100,426      |
| 2015             | 100,019      |
| 2016             | 99,433       |
| 2017             | 96,221       |
| Thereafter       | 1,236,707    |
|                  | \$ 1,683,019 |

**6. Long-Term Debt**

In November 2011, the Company entered into a credit agreement which was comprised of a senior secured term loan facility (the Term Loan Facility), a revolving credit facility (the Revolving Facility; together with the Term Loan Facility, the Senior Credit Facilities), 11% senior notes due 2019 (the 2019 Notes) and 11.25% senior notes due 2020 (the 2020 Notes; together with the 2019 Notes, the Senior Notes).

Long-term debt as of June 30, 2013 and December 31, 2012, consisted of the following:

|   | June 30,<br>2013 | December 31,<br>2012 |
|---|------------------|----------------------|
| <i>Senior Credit Facilities</i>   |                  |                      |
| \$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$17,335 and \$32,426 at June 30, 2013 and December 31, 2012, respectively (effective interest rate of 4.21%) | \$ 1,267,376     | \$ 1,258,758         |
| \$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate  |                  |                      |
| <i>Senior Notes</i>   |                  |                      |
| \$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$8,097 and \$8,506 at June 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.53%)                     | 366,903          | 366,494              |
| \$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,989 and \$10,393 at June 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.86%)                 | 365,011          | 364,607              |
| <i>Obligation under data sublicense agreement</i>   | 26,863           | 26,863               |
| <i>Other</i>  | 13,685           | 287                  |
| Less current portion  | (22,094)         | (17,595)             |
| Long-term debt  | \$ 2,017,744     | \$ 1,999,414         |

**Senior Credit Facilities**

The credit agreement governing the Senior Credit Facilities (the Senior Credit Agreement) provides that, subject to certain conditions, the Company may request additional tranches of term loans, increase commitments under the Revolving Facility or the Term Loan Facility or add one or more incremental revolving credit facility tranches (provided that the revolving credit commitments outstanding at any time have no more than three different maturity dates) in an aggregate amount not to exceed (a) \$300,000 plus (b) an unlimited amount at any time, subject to



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compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00:1.00. Availability of such additional tranches of term loans or revolving credit facilities and/or increased commitments is subject

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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited and amounts in thousands, except share and per share amounts)**

to, among other conditions, the absence of any default under the Senior Credit Agreement and the receipt of commitments by existing or additional financial institutions. Proceeds of the Revolving Facility, including up to \$30,000 in the form of borrowings on same-day notice, referred to as swingline loans, and up to \$50,000 in the form of letters of credits, are available to provide financing for working capital and general corporate purposes.

Borrowings under the Senior Credit Facilities bear interest at an annual rate equal to an applicable margin plus, at the Company's option, either (a) a base rate determined by reference to the highest of (i) the applicable prime rate, (ii) the federal funds rate plus 0.50% and (iii) a LIBOR rate determined by reference to the costs of funds for United States dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00%, which base rate, in the case of the Term Loan Facility only, shall be no less than 2.25%, or (b) a LIBOR rate determined by reference to the costs of funds for United States dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, which, in the case of the Term Loan Facility only, shall be no less than 1.25%.

In April 2012, the Company amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80,000 of additional term loans. Following this amendment, the LIBOR-based interest rate on the Term Loan Facility was LIBOR plus 3.75%, compared to the previous interest rate of LIBOR plus 5.50%. The new LIBOR-based interest rate on the Revolving Facility was LIBOR plus 3.50% (with a potential step-down to LIBOR plus 3.25% based on the Company's first lien net leverage ratio), compared to the previous interest rate of LIBOR plus 5.25% (with a potential step-down to LIBOR plus 5.00% based on the Company's first lien net leverage ratio).

In April 2013, the Company again amended the Senior Credit Agreement to further reprice, and also to modify certain financial covenants under, the Senior Credit Facilities. Following this amendment, the interest rate on the Term Loan Facility is LIBOR plus 2.50%, compared to the previous interest rate of LIBOR plus 3.75%. The new interest rate on the Revolving Facility is LIBOR plus 2.50%, compared to the previous interest rate of LIBOR plus 3.50% (or 3.25% based on a specified first lien net leverage ratio). The Term Loan Facility remains subject to a LIBOR floor of 1.25%, and there continues to be no LIBOR floor on the Revolving Facility. In connection with the April 2013 repricing, the Senior Credit Agreement also was amended to, among other things, eliminate the financial covenant related to the consolidated cash interest coverage ratio and modify the financial covenant related to the net leverage test by maintaining the required first lien net leverage ratio at its current level of 5.35 to 1.00 for the remaining term of the Senior Credit Facilities.

These amendments to the Senior Credit Agreement resulted in a loss on extinguishment of debt of \$23,160 and \$21,853 and other expenses related to fees paid to third parties of \$1,151 and \$3,558, for the three and six months ended June 30, 2013 and 2012, respectively, which have been reflected within sales, marketing, general and administrative expense in the accompanying consolidated statements of operations.

In addition to paying interest on outstanding principal under the Senior Credit Facilities, the Company is required to pay customary agency fees, letter of credit fees and a 0.50% commitment fee in respect of the unutilized commitments under the Revolving Facility.

The Senior Credit Agreement requires that the Company prepay outstanding loans under the Term Loan Facility, subject to certain exceptions, with (a) 100% of the net cash proceeds of any incurrence of debt other than debt permitted under the Senior Credit Agreement, (b) commencing with the fiscal year ended December 31, 2012, 50% (which percentage will be reduced to 25% and 0% based on the Company's first lien net leverage ratio) of the Company's annual excess cash flow and (c) 100% of the net cash proceeds of certain asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions.

The Company generally may voluntarily prepay outstanding loans under the Senior Credit Facilities at any time without premium or penalty other than breakage costs with respect to LIBOR loans; provided, however, the Company may be subject to a prepayment premium of 1.00% of the aggregate principal amount of the loans so prepaid based on the timing of certain repricing transactions.

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The Company is required to make quarterly payments equal to 0.25% of the aggregate principal amount of the loans under the Term Loan Facility, with the balance due and payable on November 2, 2018. Any principal amount outstanding under the Revolving Facility is due and payable on November 2, 2016.

Certain of the Company's United States wholly-owned restricted subsidiaries, together with the Company, are co-borrowers and jointly and severally liable for all obligations under the Senior Credit Facilities. Such obligations of the co-borrowers are unconditionally guaranteed by Beagle Intermediate Holdings, Inc. (a direct wholly-owned subsidiary of Parent), the Company and each of its existing and future United States wholly-owned restricted subsidiaries (with certain exceptions including immaterial subsidiaries). These obligations are secured by a perfected security interest in substantially all of the assets of the co-borrowers and guarantors now owned or later acquired, including a pledge of all of the capital stock of the Company and its United States wholly-owned restricted subsidiaries and 65% of the capital stock of its foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

During the three months ended June 30, 2013, the Senior Credit Agreement required the Company to comply with a maximum first lien net leverage ratio financial maintenance covenant, to be tested on the last day of each fiscal quarter. A breach of the first lien net leverage ratio covenant is subject to certain equity cure rights. In addition, the Senior Credit Facilities contain a number of negative covenants that, among other things and subject to certain exceptions, restrict the Company's ability and the ability of its subsidiaries to:

incur additional indebtedness or guarantees;

incur liens;

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of subsidiaries;

pay dividends on capital stock or redeem, repurchase or retire capital stock of the Company or any restricted subsidiary;

alter the business of the Company;

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with affiliates; and

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enter into agreements limiting dividends and distributions of certain subsidiaries.

The Senior Credit Agreement also contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default (including upon change of control).

### *Senior Notes*

The 2019 Notes bear interest at an annual rate of 11.00% with interest payable semi-annually on June 30 and December 31 of each year, commencing on June 30, 2012. The 2019 Notes mature on December 31, 2019. The 2020 Notes bear interest at an annual rate of 11.25% with interest payable quarterly on March 31, June 30, September 30 and December 31 of each year. The 2020 Notes mature on December 31, 2020.

The Company may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at any time on or after December 31, 2015 at the applicable redemption price, plus accrued and unpaid interest. In addition, at any time prior to December 31, 2014, the Company may, at its option and on one or more occasions, redeem up to 35% of the aggregate principal amount of the 2019 Notes or the 2020 Notes, at a redemption price equal to 100% of the aggregate principal amount, plus a premium equal to the stated interest rate on the 2019 Notes or the 2020 Notes, respectively, plus accrued and unpaid interest with the net cash proceeds of certain equity offerings; provided that at least 50% of the sum of the aggregate principal amount of the 2019 Notes or 2020 Notes, respectively, originally issued (including any additional notes) remain outstanding immediately after such redemption and the redemption occurs within 180 days of the equity offering. At any time prior to December 31, 2015, the Company may redeem the 2019 Notes, the 2020 Notes or

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both, in whole or in part, at its option and on one or more occasions, at a redemption price equal to 100% of the principal amount, plus an applicable premium and accrued and unpaid interest. If the Company experiences specific kinds of changes in control, it must offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of the Company's existing and future indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The Company's obligations under the Senior Notes are guaranteed on a senior basis by all of its existing and subsequently acquired or organized wholly-owned United States restricted subsidiaries that guarantee the Senior Credit Facilities or its other indebtedness or indebtedness of any affiliate guarantor. The Senior Notes and the related guarantees are effectively subordinated to the Company's existing and future secured obligations and that of its affiliate guarantors to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all existing and future indebtedness and other liabilities of any of the Company's subsidiaries that do not guarantee the Senior Notes.

The indentures governing the Senior Notes (the "Indentures") contain customary covenants that restrict the ability of the Company and its restricted subsidiaries to:

pay dividends on capital stock or redeem, repurchase or retire capital stock;

incur additional indebtedness or issue certain capital stock;

incur certain liens;

make investments, loans, advances and acquisitions;

consolidate, merge or transfer all or substantially all of their assets and the assets of their subsidiaries;

prepay subordinated debt;

engage in certain transactions with affiliates; and

enter into agreements restricting the subsidiaries' ability to pay dividends.

The Indentures also contain certain customary affirmative covenants and events of default.

***Obligation Under Data Sublicense Agreement***

In October 2009 and April 2010, the Company acquired certain additional rights to specified uses of its data from the former owner of the Company's business, in order to broaden the Company's ability to pursue business intelligence and data analytics solutions for payers and

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providers. The Company previously licensed exclusive rights to this data to the former owner of the Company's business. In connection with these data rights acquisitions, the Company recorded amortizable intangible assets and corresponding obligations at inception based on the present value of the scheduled annual payments through 2018, which totaled \$65,000 in the aggregate (approximately \$38,000 remained payable at June 30, 2013). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

### *Other*

During the three months ended March 31, 2013, the Company entered into deferred financing arrangements with certain vendors. The obligations were recorded at the present value of the scheduled payments. Such future payments totaled \$14,266 at June 30, 2013.

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****7. Interest Rate Swap*****Risk Management Objective of Using Derivatives***

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

***Cash Flow Hedges of Interest Rate Risk***

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. During the three and six months ended June 30, 2013, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt pursuant to the Term Loan Facility. As of June 30, 2013, the Company had three outstanding interest rate derivatives with a combined notional amount of \$640,000 that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$2,573 will be reclassified as an increase to interest expense.

The following table summarizes the fair value of the Company's derivative instruments at June 30, 2013 and December 31, 2012:

|   | <b>Fair Values of Derivative Instruments</b> |                          |                              |
|---|--|--------------------------|------------------------------|
|   | <b>Asset (Liability) Derivatives</b>         |                          |                              |
|   | <b>Balance Sheet Location</b>                | <b>June 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
| <b>Derivatives designated as hedging instruments:</b> |  |                          |                              |
| Interest rate swaps                                   | Other assets                                 | \$ 2,437                 | \$                           |
| Interest rate swaps                                   | Accrued expenses                             | (2,573)                  | (2,563)                      |
| Interest rate swaps                                   | Other long-term liabilities                  |                          | (3,258)                      |
|   |  | <b>\$ (136)</b>          | <b>\$ (5,821)</b>            |

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**Tabular Disclosure of the Effect of Derivative Instruments on the Statement of Operations**

The effect of the derivative instruments on the accompanying unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2013 and 2012, respectively, is summarized in the following table:

|  | Three Months<br>Ended June 30,<br>2013 | Three Months<br>Ended June 30,<br>2012 | Six Months<br>Ended June 30,<br>2013 | Six Months<br>Ended June 30,<br>2012 |
|--|--|--|--------------------------------------|--------------------------------------|
| <b>Derivatives in Cash Flow Hedging Relationships</b>  |  |  |                                      |                                      |
| Gain related to effective portion of derivative recognized in other comprehensive loss                                     | \$ 4,358                               | \$ 7,306                               | \$ 4,402                             | \$ 4,782                             |
| Loss related to effective portion of derivative reclassified from accumulated other comprehensive loss to interest expense | \$ (645)                               | \$ (645)                               | \$ (1,283)                           | \$ (1,070)                           |

**Credit Risk-related Contingent Features**

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company also could be declared in default on its derivative obligations.

As of June 30, 2013, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$787. If the Company had breached any of these provisions at June 30, 2013, the Company could have been required to settle its obligations under the agreements at this termination value. The Company does not offset any derivative instruments and the derivative instruments are not subject to collateral posting requirements.

**8. Fair Value Measurements****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The Company's assets and liabilities that are measured at fair value on a recurring basis consist of the Company's derivative financial instruments and contingent consideration associated with business combinations. The table below summarizes these items as of June 30, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

| Description                          | Balance at<br>June 30, 2013 | Quoted in<br>Markets<br>Identical (Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--------------------------------------|-----------------------------|---|---|--|
| Interest rate swaps                  | \$ (136)                    | \$  | \$ (136)  | \$   |
| Contingent consideration obligations | (5,887)                     |   |   | (5,887)  |



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|       |    |         |    |    |       |    |         |
|-------|----|---------|----|----|-------|----|---------|
| Total | \$ | (6,023) | \$ | \$ | (136) | \$ | (5,887) |
|-------|----|---------|----|----|-------|----|---------|

The valuation of the Company's derivative financial instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair value

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)**

of the interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates derived from observable market interest rate curves. Effective January 2013, the Company revised its valuation methodology for derivatives to discount the future expected cash flows using the overnight index swap rate. This change in methodology had no material effect on the Company's unaudited condensed consolidated financial statements for the six months ended June 30, 2013.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements and measures the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs to evaluate the likelihood of default by itself and by its counterparties. As of June 30, 2013, the Company determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The valuation of the Company's contingent consideration obligations is determined using a probability weighted discounted cash flow method. This analysis reflects the contractual terms of the purchase agreement and utilizes assumptions with regard to future sales, probabilities of achieving such future sales and a discount rate. Significant increases with respect to assumptions as to future sales and probabilities of achieving such future sales would result in a higher fair value measurement while an increase in the discount rate would result in a lower fair value measurement.

The table below presents a reconciliation of the fair value of the liabilities that use significant unobservable inputs (Level 3).

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

|  | <b>Three Months<br/>Ended June 30,<br/>2013</b> | <b>Three Months<br/>Ended June 30,<br/>2012</b> | <b>Six Months<br/>Ended June 30,<br/>2013</b> | <b>Six Months<br/>Ended June 30,<br/>2012</b> |
|--|---|---|---|---|
| Balance at beginning of period         | \$ (237)  | \$ (445)  | \$ (296)                                      | \$ (501)                                      |
| Issuance of contingent consideration   | (5,717)   |   | (5,717)                                       |   |
| Settlement of contingent consideration | 67  | 43  | 126   | 99  |
| Balance at end of period               | \$ (5,887)                                      | \$ (402)  | \$ (5,887)                                    | \$ (402)                                      |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)*****Assets and Liabilities Measured at Fair Value upon Initial Recognition***

The carrying amount and the estimated fair value of financial instruments held by the Company as of June 30, 2013 were:

|                                    | Carrying<br>Amount | Fair Value   |
|------------------------------------|--------------------|--------------|
| Cash and cash equivalents          | \$ 52,919          | \$ 52,919    |
| Accounts receivable                | \$ 203,734         | \$ 203,734   |
| Senior Credit Facilities (Level 1) | \$ 1,267,376       | \$ 1,278,287 |
| Senior Notes (Level 2)             | \$ 731,914         | \$ 871,174   |
| Cost method investment (Level 3)   | \$ 3,458           | \$ 4,522     |

The carrying amounts of cash equivalents and accounts receivable approximate fair value because of their short-term maturities. The fair value of long-term debt is based upon market quotes and trades by investors in partial interests of these instruments. The fair value of the cost method investment is estimated using a probability-weighted discounted cash flow model that includes the costs of equity, long-term sustainable growth rate and a discount for lack of marketability as significant unobservable inputs.

**9. Legal Proceedings**

In the normal course of business, the Company is subject to claims, lawsuits and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, in management's opinion, the liabilities, if any, in excess of amounts provided or covered by insurance, are not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**10. Income Taxes**

Income taxes for the six months ended June 30, 2013 and June 30, 2012 amounted to an income tax benefit of \$26,547 and \$27,272, respectively. The Company's effective tax rate was 38.9% for the six months ended June 30, 2013 compared to 34.0% during the same period in 2012. The Company's effective tax rate is generally affected by deferred tax expense resulting from differences between the book and income tax basis of its investment in EBS Master LLC (EBS Master), changes in the Company's valuation allowances and other factors. In addition, during the six months ended June 30, 2013, we changed our methodology of estimating state income taxes from a separate state return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

**11. Tax Receivable Agreement Obligation to Related Parties**

In connection with the IPO, the Company entered into tax receivable agreements which obligated the Company to make payments to certain current and former owners of the Company, including affiliates of Hellman and Friedman (H&F) and certain members of management, equal to 85% of the applicable cash savings that the Company realizes as a result of tax attributes arising from certain previous transactions. The Company will retain the benefit of the remaining 15% of these tax savings.

In November 2011, H&F and certain current and former members of management exchanged all of their remaining EBS Master Units (EBS Units) for cash and a combination of cash and shares of Parent, respectively, and the former majority owner of the Company assigned its rights under the tax receivable agreements to affiliates of Blackstone (Blackstone, together with H&F and certain current and former members of management are sometimes referred to collectively as the TRA Members). Additionally, effective December 31, 2011, the Company simplified its corporate structure. The tax attributes of the exchange of EBS Units and



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corporate restructuring are expected to provide the Company with additional cash savings, 85% of which are payable to the TRA Members. Collectively, the Company expects the tax attributes of the above referenced events to result in cumulative payments under the tax receivable agreements of approximately \$354,000. \$137,639 of this amount, which reflected the initial fair value of the tax receivable agreement obligations plus recognized accretion, was reflected as an obligation on the accompanying unaudited condensed consolidated balance sheet at June 30, 2013. The accompanying unaudited condensed consolidated statement of operations for the six months ended June 30, 2013 and 2012 includes accretion expense of \$11,599 and \$12,346, respectively, related to this obligation.

During the three months ended June 30, 2013, the Company changed its estimate of the timing and amount of future cash flows attributable to the tax receivable agreements as a result of the impact of the April 2013 repricing to the Senior Credit Agreement, the Goold acquisition and routine updates to financial projections. These revised estimates resulted in an increase to pretax net loss of \$3,293 for the three months ended June 30, 2013.

**12. Segment Reporting**

Effective January 1, 2013, the Company completed an internal reorganization of its reporting structure which resulted in a change in the composition of its operating segments. The prior period segment information has been restated to reflect the current organizational structure.

Management views the Company's operating results in four operating segments: (a) payer services, (b) provider revenue cycle solutions, (c) ambulatory provider services and (d) pharmacy services. Listed below are the results of operations for each of the operating segments. This information is reflected in the manner utilized by management to make operating decisions, assess performance and allocate resources. Segment assets are not presented to management for purposes of operational decision making, and therefore are not included in the accompanying tables. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the notes to the Company's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the SEC.

***Payer Services Segment***

The payer services segment provides payment cycle solutions to healthcare payers that simplify the administration of healthcare related to insurance eligibility and benefit verification, claims management, payment integrity and payment distribution. Additionally, the payer services segment provides consulting services primarily to healthcare payers.

***Provider Revenue Cycle Solutions Segment***

The provider revenue cycle solutions segment provides revenue cycle management solutions, government program eligibility and enrollment services and provider payment integrity solutions primarily to hospitals and large physician practices that simplify providers' revenue cycle and workflow, reduce related costs and improve cash flow.

***Ambulatory Provider Services Segment***

The ambulatory provider services segment provides, both directly and through the Company's channel partners, revenue cycle management solutions and patient billing and payment services primarily to small physician practices, dentists, labs and other healthcare providers that simplify providers' revenue cycle and workflow, reduce related costs and improve cash flow.

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***Pharmacy Services Segment***

The pharmacy services segment provides electronic prescribing services and other electronic solutions to pharmacies, pharmacy benefit management companies, government agencies and other payers related to prescription benefit claim filing, adjudication and management.

***Other***

Inter-segment revenue and expenses primarily represent claims management and patient billing and payment services provided between segments.

Corporate and eliminations includes management, administrative and other shared corporate services functions such as information technology, legal, finance, human resources, marketing and product management, as well as eliminations to remove inter-segment revenue and expenses. These administrative and other shared services costs are excluded from the adjusted EBITDA measure for each respective operating segment.

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The revenue and adjusted EBITDA for the operating segments are as follows:

|   | Three Months Ended June 30, 2013 |                        |   |           |                               | Consolidated |
|---|----------------------------------|------------------------|---|-----------|-------------------------------|--------------|
|   | Payer                            | Ambulatory<br>Provider | Provider<br>Revenue<br>Cycle<br>Solutions | Pharmacy  | Corporate and<br>Eliminations |              |
| Revenue from external customers:                        |                                  |                        |   |           |                               |              |
| Claims management                                       | \$ 69,069                        | \$                     | \$  | \$        | \$                            | \$ 69,069    |
| Payment distribution services                           | 64,934                           |                        |   |           |                               | 64,934       |
| Patient billing and payment services                    |                                  | 64,065                 |   |           |                               | 64,065       |
| Physician services                                      |                                  | 18,832                 |   |           |                               | 18,832       |
| Dental  |                                  | 8,209                  |   |           |                               | 8,209        |
| Revenue cycle technology                                |                                  |                        | 30,211                                    |           |                               | 30,211       |
| Revenue cycle services                                  |                                  |                        | 30,752                                    |           |                               | 30,752       |
| Pharmacy  |                                  |                        |   | 25,413    |                               | 25,413       |
| Inter-segment revenue                                   | 1,280                            |                        | 425                                       | 85        | (1,790)                       |              |
| Net revenue   | \$ 135,283                       | \$ 91,106              | \$ 61,388                                 | \$ 25,498 | \$ (1,790)                    | \$ 311,485   |
| Income (loss) before income taxes                       |                                  |                        |   |           |                               | \$ (45,459)  |
| Interest expense  |                                  |                        |   |           |                               | 37,974       |
| Depreciation and amortization                           |                                  |                        |   |           |                               | 43,946       |
| EBITDA  |                                  |                        |   |           |                               | 36,461       |
| Equity compensation                                     |                                  |                        |   |           |                               | 1,773        |
| Acquisition accounting adjustments                      |                                  |                        |   |           |                               | 216          |
| Acquisition-related costs                               |                                  |                        |   |           |                               | 763          |
| Transaction-related costs and advisory fees             |                                  |                        |   |           |                               | 1,825        |
| Strategic initiatives, duplicative and transition costs |                                  |                        |   |           |                               | 1,308        |
| Severance and retention costs                           |                                  |                        |   |           |                               | 744          |
| Loss on extinguishment of debt and other related costs  |                                  |                        |   |           |                               | 24,311       |
| Accretion expense                                       |                                  |                        |   |           |                               | 7,459        |
| Disposal of assets                                      |                                  |                        |   |           |                               | 1,934        |
| Other   |                                  |                        |   |           |                               | 357          |
| EBITDA Adjustments                                      |                                  |                        |   |           |                               | 40,690       |
| Adjusted EBITDA   | \$ 54,981                        | \$ 23,740              | \$ 23,777                                 | \$ 11,369 | \$ (36,716)                   | \$ 77,151    |
| Capital Expenditures                                    | \$ 1,951                         | \$ 2,496               | \$ 3,226                                  | \$ 930    | \$ 11,092                     | \$ 19,695    |

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|   | Three Months Ended June 30, 2012 |                        |   |                  |                               | Consolidated      |
|---|----------------------------------|------------------------|---|------------------|-------------------------------|-------------------|
|   | Payer                            | Ambulatory<br>Provider | Provider<br>Revenue<br>Cycle<br>Solutions | Pharmacy         | Corporate and<br>Eliminations |                   |
| Revenue from external customers:                        |                                  |                        |   |                  |                               |                   |
| Claims management                                       | \$ 60,276                        | \$                     | \$  | \$               | \$                            | \$ 60,276         |
| Payment distribution services                           | 63,919                           |                        |   |                  |                               | 63,919            |
| Patient billing and payment services                    |                                  | 64,661                 |   |                  |                               | 64,661            |
| Physician services                                      |                                  | 17,970                 |   |                  |                               | 17,970            |
| Dental  |                                  | 8,028                  |   |                  |                               | 8,028             |
| Revenue cycle technology                                |                                  |                        | 27,335                                    |                  |                               | 27,335            |
| Revenue cycle services                                  |                                  |                        | 29,394                                    |                  |                               | 29,394            |
| Pharmacy  |                                  |                        |   | 22,884           |                               | 22,884            |
| Inter-segment revenue                                   | 1,022                            |                        | 194                                       | 87               | (1,303)                       |                   |
| <b>Net revenue</b>                                      | <b>\$ 125,217</b>                | <b>\$ 90,659</b>       | <b>\$ 56,923</b>                          | <b>\$ 22,971</b> | <b>\$ (1,303)</b>             | <b>\$ 294,467</b> |
| Income (loss) before income taxes                       |                                  |                        |   |                  |                               | \$ (53,213)       |
| Interest expense  |                                  |                        |   |                  |                               | 42,902            |
| Depreciation and amortization                           |                                  |                        |   |                  |                               | 46,626            |
| <b>EBITDA</b>   |                                  |                        |   |                  |                               | <b>36,315</b>     |
| Acquisition accounting adjustments                      |                                  |                        |   |                  |                               | 1,496             |
| Acquisition-related costs                               |                                  |                        |   |                  |                               | 2,727             |
| Transaction-related costs and advisory fees             |                                  |                        |   |                  |                               | 2,514             |
| Strategic initiatives, duplicative and transition costs |                                  |                        |   |                  |                               | 1,627             |
| Severance and retention costs                           |                                  |                        |   |                  |                               | 316               |
| Loss on extinguishment of debt and other related costs  |                                  |                        |   |                  |                               | 25,411            |
| Accretion expense                                       |                                  |                        |   |                  |                               | 8,579             |
| Disposal of assets                                      |                                  |                        |   |                  |                               | 75                |
| Other   |                                  |                        |   |                  |                               | 1,040             |
| <b>EBITDA Adjustments</b>                               |                                  |                        |   |                  |                               | <b>43,785</b>     |
| <b>Adjusted EBITDA</b>                                  | <b>\$ 50,785</b>                 | <b>\$ 24,778</b>       | <b>\$ 23,478</b>                          | <b>\$ 11,473</b> | <b>\$ (30,414)</b>            | <b>\$ 80,100</b>  |
| <b>Capital Expenditures</b>                             | <b>\$ 3,206</b>                  | <b>\$ 1,455</b>        | <b>\$ 2,704</b>                           | <b>\$ 849</b>    | <b>\$ 4,070</b>               | <b>\$ 12,284</b>  |



**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)**

|   | Six Months Ended June 30, 2013 |                        |   |                  |                               |                   |
|---|--------------------------------|------------------------|---|------------------|-------------------------------|-------------------|
|   | Payer                          | Ambulatory<br>Provider | Provider<br>Revenue<br>Cycle<br>Solutions | Pharmacy         | Corporate and<br>Eliminations | Consolidated      |
| Revenue from external customers:                        |                                |                        |   |                  |                               |                   |
| Claims management                                       | \$ 135,150                     | \$                     | \$  | \$               | \$                            | \$ 135,150        |
| Payment distribution services                           | 130,884                        |                        |   |                  |                               | 130,884           |
| Patient billing and payment services                    |                                | 127,146                |   |                  |                               | 127,146           |
| Physician services                                      |                                | 37,252                 |   |                  |                               | 37,252            |
| Dental  |                                | 16,411                 |   |                  |                               | 16,411            |
| Revenue cycle technology                                |                                |                        | 59,277                                    |                  |                               | 59,277            |
| Revenue cycle services                                  |                                |                        | 61,101                                    |                  |                               | 61,101            |
| Pharmacy  |                                |                        |   | 49,966           |                               | 49,966            |
| Inter-segment revenue                                   | 2,114                          |                        | 661                                       | 179              | (2,954)                       |                   |
| <b>Net revenue</b>                                      | <b>\$ 268,148</b>              | <b>\$ 180,809</b>      | <b>\$ 121,039</b>                         | <b>\$ 50,145</b> | <b>\$ (2,954)</b>             | <b>\$ 617,187</b> |
| Income (loss) before income taxes                       |                                |                        |   |                  |                               | \$ (68,267)       |
| Interest expense  |                                |                        |   |                  |                               | 79,389            |
| Depreciation and amortization                           |                                |                        |   |                  |                               | 90,762            |
| <b>EBITDA</b>   |                                |                        |   |                  |                               | <b>101,884</b>    |
| Equity compensation                                     |                                |                        |   |                  |                               | 3,547             |
| Acquisition accounting adjustments                      |                                |                        |   |                  |                               | 490               |
| Acquisition-related costs                               |                                |                        |   |                  |                               | 1,260             |
| Transaction-related costs and advisory fees             |                                |                        |   |                  |                               | 3,325             |
| Strategic initiatives, duplicative and transition costs |                                |                        |   |                  |                               | 2,468             |
| Severance and retention costs                           |                                |                        |   |                  |                               | 1,629             |
| Loss on extinguishment of debt and other related costs  |                                |                        |   |                  |                               | 24,311            |
| Accretion expense                                       |                                |                        |   |                  |                               | 11,599            |
| Disposal of assets                                      |                                |                        |   |                  |                               | 1,903             |
| Other   |                                |                        |   |                  |                               | 779               |
| <b>EBITDA Adjustments</b>                               |                                |                        |   |                  |                               | <b>51,311</b>     |
| <b>Adjusted EBITDA</b>                                  | <b>\$ 105,645</b>              | <b>\$ 47,654</b>       | <b>\$ 47,838</b>                          | <b>\$ 23,716</b> | <b>\$ (71,658)</b>            | <b>\$ 153,195</b> |
| Capital Expenditures                                    | \$ 6,832                       | \$ 3,624               | \$ 5,783                                  | \$ 2,177         | \$ 14,830                     | \$ 33,246         |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)**

|   | Six Months Ended June 30, 2012 |                        |   |                  |                               |                   |
|---|--------------------------------|------------------------|---|------------------|-------------------------------|-------------------|
|   | Payer                          | Ambulatory<br>Provider | Provider<br>Revenue<br>Cycle<br>Solutions | Pharmacy         | Corporate and<br>Eliminations | Consolidated      |
| Revenue from external customers:                        |                                |                        |   |                  |                               |                   |
| Claims management                                       | \$ 114,961                     | \$                     | \$  | \$               | \$                            | \$ 114,961        |
| Payment distribution services                           | 127,795                        |                        |   |                  |                               | 127,795           |
| Patient billing and payment services                    |                                | 127,374                |   |                  |                               | 127,374           |
| Physician services                                      |                                | 36,899                 |   |                  |                               | 36,899            |
| Dental  |                                | 16,200                 |   |                  |                               | 16,200            |
| Revenue cycle technology                                |                                |                        | 53,399                                    |                  |                               | 53,399            |
| Revenue cycle services                                  |                                |                        | 57,369                                    |                  |                               | 57,369            |
| Pharmacy  |                                |                        |   | 46,506           |                               | 46,506            |
| Inter-segment revenue                                   | 1,905                          |                        | 438                                       | 180              | (2,523)                       |                   |
| <b>Net revenue</b>                                      | <b>\$ 244,661</b>              | <b>\$ 180,473</b>      | <b>\$ 111,206</b>                         | <b>\$ 46,686</b> | <b>\$ (2,523)</b>             | <b>\$ 580,503</b> |
| Income (loss) before income taxes                       |                                |                        |   |                  |                               | \$ (80,200)       |
| Interest expense  |                                |                        |   |                  |                               | 88,641            |
| Depreciation and amortization                           |                                |                        |   |                  |                               | 91,782            |
| <b>EBITDA</b>   |                                |                        |   |                  |                               | <b>100,223</b>    |
| Acquisition accounting adjustments                      |                                |                        |   |                  |                               | 3,433             |
| Acquisition-related costs                               |                                |                        |   |                  |                               | 3,655             |
| Transaction-related costs and advisory fees             |                                |                        |   |                  |                               | 4,662             |
| Strategic initiatives, duplicative and transition costs |                                |                        |   |                  |                               | 6,243             |
| Severance and retention costs                           |                                |                        |   |                  |                               | 917               |
| Loss on extinguishment of debt and other related costs  |                                |                        |   |                  |                               | 25,411            |
| Accretion expense                                       |                                |                        |   |                  |                               | 12,346            |
| Disposal of assets                                      |                                |                        |   |                  |                               | 51                |
| Other   |                                |                        |   |                  |                               | 1,602             |
| <b>EBITDA Adjustments</b>                               |                                |                        |   |                  |                               | <b>58,320</b>     |
| <b>Adjusted EBITDA</b>                                  | <b>\$ 99,922</b>               | <b>\$ 49,590</b>       | <b>\$ 45,328</b>                          | <b>\$ 23,446</b> | <b>\$ (59,743)</b>            | <b>\$ 158,543</b> |
| <b>Capital Expenditures</b>                             | <b>\$ 5,766</b>                | <b>\$ 2,877</b>        | <b>\$ 3,902</b>                           | <b>\$ 1,414</b>  | <b>\$ 13,471</b>              | <b>\$ 27,430</b>  |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****13. Accumulated Other Comprehensive Income (Loss)**

The following is a summary of the accumulated other comprehensive income (loss) balances, net of taxes, as of and for the six months ended June 30, 2013.

|   | Foreign<br>Currency<br>Translation<br>Adjustment | Cash Flow<br>Hedge | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|---|--|--------------------|---|
| Balance at January 1, 2013                          | \$ (127)   | \$ (3,662)         | \$ (3,789)  |
| Change associated with foreign currency translation | (99)   |                    | (99)  |
| Change associated with current period hedging       |  | 2,930              | 2,930   |
| Reclassification into earnings                      |  | 645                | 645   |
| Balance at June 30, 2013                            | \$ (226)   | \$ (87)            | \$ (313)  |

**14. Supplemental Condensed Consolidating Financial Information**

In lieu of providing separate annual and interim financial statements for each guarantor of the Senior Notes, Regulation S-X provides companies, if certain criteria are satisfied, with the option to instead provide condensed consolidating financial information for its issuers, guarantors and non-guarantors. In the case of the Company, the applicable criteria include the following: (i) the Senior Notes are fully and unconditionally guaranteed on a joint and several basis, (ii) each of the guarantors of the Senior Notes is a direct or indirect wholly-owned subsidiary of the Company and (iii) any non-guarantors are considered minor as that term is defined in Regulation S-X. Because each of these criteria has been satisfied by the Company, condensed consolidating balance sheets as of June 30, 2013 and December 31, 2012, condensed consolidating statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012, respectively, and condensed consolidating cash flows for the six months ended June 30, 2013 and 2012, respectively, for the Company, segregating the issuer, the subsidiary guarantors and consolidating adjustments, are reflected below. Prior period amounts have been reclassified to conform to the current year presentation.

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Balance Sheet**

|   | As of June 30, 2013 |                           |                              |                     |
|---|---------------------|---------------------------|------------------------------|---------------------|
|   | Emdeon<br>Inc.      | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated        |
| <b>ASSETS</b>   |                     |                           |                              |                     |
| Current assets:   |                     |                           |                              |                     |
| Cash and cash equivalents                                   | \$ 31,898           | \$ 21,021                 | \$                           | \$ 52,919           |
| Accounts receivable, net of allowance for doubtful accounts |                     | 203,734                   |                              | 203,734             |
| Deferred income tax assets                                  |                     | 5,043                     |                              | 5,043               |
| Prepaid expenses and other current assets                   | 4,844               | 25,478                    |                              | 30,322              |
| <b>Total current assets</b>                                 | <b>36,742</b>       | <b>255,276</b>            |                              | <b>292,018</b>      |
| Property and equipment, net                                 | 1                   | 276,684                   |                              | 276,685             |
| Due from affiliates   |                     | 64,308                    | (64,308)                     |                     |
| Investment in consolidated subsidiaries                     | 1,795,128           |                           | (1,795,128)                  |                     |
| Goodwill  |                     | 1,502,531                 |                              | 1,502,531           |
| Intangible assets, net                                      | 147,000             | 1,536,019                 |                              | 1,683,019           |
| Other assets, net   | 42,948              | 15,674                    | (33,493)                     | 25,129              |
| <b>Total assets</b>   | <b>\$ 2,021,819</b> | <b>\$ 3,650,492</b>       | <b>\$ (1,892,929)</b>        | <b>\$ 3,779,382</b> |
| <b>LIABILITIES AND EQUITY</b>                               |                     |                           |                              |                     |
| Current liabilities:  |                     |                           |                              |                     |
| Accounts payable  | \$                  | \$ 12,244                 | \$                           | \$ 12,244           |
| Accrued expenses  | 39,159              | 86,633                    |                              | 125,792             |
| Deferred revenues   |                     | 9,656                     |                              | 9,656               |
| Current portion of long-term debt                           | 4,597               | 17,497                    |                              | 22,094              |
| <b>Total current liabilities</b>                            | <b>43,756</b>       | <b>126,030</b>            |                              | <b>169,786</b>      |
| Due to affiliates   |                     | 64,308                    | (64,308)                     |                     |
| Long-term debt, excluding current portion                   | 779,948             | 1,237,796                 |                              | 2,017,744           |
| Deferred income tax liabilities                             |                     | 480,887                   | (33,493)                     | 447,394             |
| Tax receivable agreement obligations to related parties     | 136,602             |                           |                              | 136,602             |
| Other long-term liabilities                                 |                     | 10,651                    |                              | 10,651              |
| Commitments and contingencies                               |                     |                           |                              |                     |
| Equity  | 997,205             | 1,795,128                 | (1,795,128)                  | 997,205             |
| <b>Total liabilities and equity</b>                         | <b>\$ 2,021,819</b> | <b>\$ 3,650,492</b>       | <b>\$ (1,892,929)</b>        | <b>\$ 3,779,382</b> |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Balance Sheet**

|   | As of December 31, 2012 |                           |                              |                     |
|---|-------------------------|---------------------------|------------------------------|---------------------|
|   | Emdeon Inc.             | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated        |
| <b>ASSETS</b>   |                         |                           |                              |                     |
| Current assets:   |                         |                           |                              |                     |
| Cash and cash equivalents                                   | \$ 754                  | \$ 31,009                 | \$                           | \$ 31,763           |
| Accounts receivable, net of allowance for doubtful accounts |                         | 190,021                   |                              | 190,021             |
| Deferred income tax assets                                  |                         | 4,184                     |                              | 4,184               |
| Prepaid expenses and other current assets                   | 2,059                   | 26,101                    |                              | 28,160              |
| <b>Total current assets</b>                                 | <b>2,813</b>            | <b>251,315</b>            |                              | <b>254,128</b>      |
| Property and equipment, net                                 | 3                       | 264,849                   |                              | 264,852             |
| Due from affiliates   |                         | 62,933                    | (62,933)                     |                     |
| Investment in consolidated subsidiaries                     | 1,839,748               |                           | (1,839,748)                  |                     |
| Goodwill  |                         | 1,488,134                 |                              | 1,488,134           |
| Intangible assets, net                                      | 151,500                 | 1,578,589                 |                              | 1,730,089           |
| Other assets, net   | 18,539                  | 22,275                    | (11,120)                     | 29,694              |
| <b>Total assets</b>   | <b>\$ 2,012,603</b>     | <b>\$ 3,668,095</b>       | <b>\$ (1,913,801)</b>        | <b>\$ 3,766,897</b> |
| <b>LIABILITIES AND EQUITY</b>                               |                         |                           |                              |                     |
| Current liabilities:  |                         |                           |                              |                     |
| Accounts payable  | \$                      | \$ 6,223                  | \$                           | \$ 6,223            |
| Accrued expenses  | 5,845                   | 95,960                    |                              | 101,805             |
| Deferred revenues   |                         | 9,342                     |                              | 9,342               |
| Current portion of long-term debt                           | 4,600                   | 12,995                    |                              | 17,595              |
| <b>Total current liabilities</b>                            | <b>10,445</b>           | <b>124,520</b>            |                              | <b>134,965</b>      |
| Due to affiliates   |                         | 62,933                    | (62,933)                     |                     |
| Long-term debt, excluding current portion                   | 778,813                 | 1,220,601                 |                              | 1,999,414           |
| Deferred income tax liabilities                             |                         | 478,041                   | (11,120)                     | 466,921             |
| Tax receivable agreement obligations to related parties     | 125,003                 |                           |                              | 125,003             |
| Other long-term liabilities                                 | 3,258                   | 5,185                     |                              | 8,443               |
| Commitments and contingencies                               |                         |                           |                              |                     |
| Equity  | 1,032,151               | 1,839,748                 | (1,839,748)                  | 1,032,151           |
| <b>Total liabilities and equity</b>                         | <b>\$ 2,012,603</b>     | <b>\$ 3,668,095</b>       | <b>\$ (1,913,801)</b>        | <b>\$ 3,766,897</b> |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Statement of Operations**

|   | <b>Three Months Ended June 30, 2013</b> |                                   |                                      |                     |
|---|---|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                      | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Revenue   | \$                                      | \$ 311,485                        | \$                                   | \$ 311,485          |
| Costs and expenses:   |   |                                   |                                      |                     |
| Cost of operations (exclusive of depreciation and amortization below) |   | 193,816                           |                                      | 193,816             |
| Development and engineering   |   | 7,644                             |                                      | 7,644               |
| Sales, marketing, general and administrative                          | 2,732                                   | 40,213                            |                                      | 42,945              |
| Depreciation and amortization   | 2,251                                   | 41,695                            |                                      | 43,946              |
| Accretion   | 7,459                                   |                                   |                                      | 7,459               |
| Operating income (loss)   | (12,442)                                | 28,117                            |                                      | 15,675              |
| Equity in earnings of consolidated subsidiaries                       | 5,525                                   |                                   | (5,525)                              |                     |
| Interest expense, net   | 23,489                                  | 14,485                            |                                      | 37,974              |
| Loss on extinguishment of debt  | 485                                     | 22,675                            |                                      | 23,160              |
| Income (loss) before income tax provision (benefit)                   | (41,941)                                | (9,043)                           | 5,525                                | (45,459)            |
| Income tax provision (benefit)  | (13,673)                                | (3,518)                           |                                      | (17,191)            |
| Net income (loss)   | \$ (28,268)                             | \$ (5,525)                        | \$ 5,525                             | \$ (28,268)         |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Statement of Operations**

|   | Three Months Ended June 30, 2012 |                           |                              | Consolidated |
|---|----------------------------------|---------------------------|------------------------------|--------------|
|   | Emdeon Inc.                      | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments |              |
| Revenue   | \$                               | \$ 294,467                | \$                           | \$ 294,467   |
| Costs and expenses:   |                                  |                           |                              |              |
| Cost of operations (exclusive of depreciation and amortization below) |                                  | 180,090                   |                              | 180,090      |
| Development and engineering   |                                  | 8,590                     |                              | 8,590        |
| Sales, marketing, general and administrative                          | 2,730                            | 36,310                    |                              | 39,040       |
| Depreciation and amortization   | 2,251                            | 44,375                    |                              | 46,626       |
| Accretion   |                                  | 8,579                     |                              | 8,579        |
| Operating income (loss)   | (13,560)                         | 25,102                    |                              | 11,542       |
| Equity in earnings of consolidated subsidiaries                       | 12,030                           |                           | (12,030)                     |              |
| Interest expense, net   | 23,693                           | 19,209                    |                              | 42,902       |
| Loss on extinguishment of debt  | 495                              | 21,358                    |                              | 21,853       |
| Income (loss) before income tax provision (benefit)                   | (49,778)                         | (15,465)                  | 12,030                       | (53,213)     |
| Income tax provision (benefit)  | (14,385)                         | (3,435)                   |                              | (17,820)     |
| Net income (loss)   | \$ (35,393)                      | \$ (12,030)               | \$ 12,030                    | \$ (35,393)  |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Statement of Operations**

|   | <b>Six Months Ended June 30, 2013</b> |                                   |                                      |                     |
|---|---------------------------------------|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                    | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Revenue   | \$                                    | \$ 617,187                        | \$                                   | \$ 617,187          |
| Costs and expenses:   |                                       |                                   |                                      |                     |
| Cost of operations (exclusive of depreciation and amortization below) |                                       | 383,122                           |                                      | 383,122             |
| Development and engineering   |                                       | 15,366                            |                                      | 15,366              |
| Sales, marketing, general and administrative                          | 5,026                                 | 77,030                            |                                      | 82,056              |
| Depreciation and amortization   | 4,502                                 | 86,260                            |                                      | 90,762              |
| Accretion   | 11,599                                |                                   |                                      | 11,599              |
| Operating income (loss)   | (21,127)                              | 55,409                            |                                      | 34,282              |
| Equity in earnings of consolidated subsidiaries                       | (2,451)                               |                                   | 2,451                                |                     |
| Interest expense, net   | 47,041                                | 32,348                            |                                      | 79,389              |
| Loss on extinguishment of debt  | 485                                   | 22,675                            |                                      | 23,160              |
| Income (loss) before income tax provision (benefit)                   | (66,202)                              | 386                               | (2,451)                              | (68,267)            |
| Income tax provision (benefit)  | (24,482)                              | (2,065)                           |                                      | (26,547)            |
| Net income (loss)   | \$ (41,720)                           | \$ 2,451                          | \$ (2,451)                           | \$ (41,720)         |



**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Statement of Operations**

|   | <b>Six Months Ended June 30, 2012</b> |                                   |                                      |                     |
|---|---------------------------------------|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                    | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Revenue   | \$                                    | \$ 580,503                        | \$                                   | \$ 580,503          |
| Costs and expenses:   |                                       |                                   |                                      |                     |
| Cost of operations (exclusive of depreciation and amortization below) |                                       | 353,236                           |                                      | 353,236             |
| Development and engineering   |                                       | 17,676                            |                                      | 17,676              |
| Sales, marketing, general and administrative                          | 4,654                                 | 70,515                            |                                      | 75,169              |
| Depreciation and amortization   | 4,502                                 | 87,280                            |                                      | 91,782              |
| Accretion   | 12,346                                |                                   |                                      | 12,346              |
| Operating income (loss)   | (21,502)                              | 51,796                            |                                      | 30,294              |
| Equity in earnings of consolidated subsidiaries                       | 7,742                                 |                                   | (7,742)                              |                     |
| Interest expense, net   | 46,851                                | 41,790                            |                                      | 88,641              |
| Loss on extinguishment of debt  | 495                                   | 21,358                            |                                      | 21,853              |
| Income (loss) before income tax provision (benefit)                   | (76,590)                              | (11,352)                          | 7,742                                | (80,200)            |
| Income tax provision (benefit)  | (23,662)                              | (3,610)                           |                                      | (27,272)            |
| Net income (loss)   | \$ (52,928)                           | \$ (7,742)                        | \$ 7,742                             | \$ (52,928)         |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|   | <b>Three Months Ended June 30, 2013</b> |                                   |                                      |                     |
|---|---|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                      | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Net income (loss)   | \$ (28,268)                             | \$ (5,525)                        | \$ 5,525                             | \$ (28,268)         |
| Other comprehensive income (loss):                        |   |                                   |                                      |                     |
| Changes in fair value of interest rate swap, net of taxes | 3,147                                   |                                   |                                      | 3,147               |
| Foreign currency translation adjustment                   |   | (64)                              |                                      | (64)                |
| Equity in other comprehensive earnings                    | (64)                                    |                                   | 64                                   |                     |
| Other comprehensive income (loss)                         | 3,083                                   | (64)                              | 64                                   | 3,083               |
| <b>Total comprehensive income (loss)</b>                  | <b>\$ (25,185)</b>                      | <b>\$ (5,589)</b>                 | <b>\$ 5,589</b>                      | <b>\$ (25,185)</b>  |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|   | <b>Emdeon Inc.</b> | <b>Three Months Ended June 30, 2012</b> |                                      |                     |
|---|--------------------|---|--------------------------------------|---------------------|
|   |                    | <b>Guarantor<br/>Subsidiaries</b>       | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Net income (loss)   | \$ (35,393)        | \$ (12,030)                             | \$ 12,030                            | \$ (35,393)         |
| Other comprehensive income (loss):                        |                    |   |                                      |                     |
| Changes in fair value of interest rate swap, net of taxes | (4,192)            |   |                                      | (4,192)             |
| Foreign currency translation adjustment                   |                    | 40                                      |                                      | 40                  |
| Equity in other comprehensive earnings                    | 40                 |   | (40)                                 |                     |
| Other comprehensive income (loss)                         | (4,152)            | 40                                      | (40)                                 | (4,152)             |
| <b>Total comprehensive income (loss)</b>                  | <b>\$ (39,545)</b> | <b>\$ (11,990)</b>                      | <b>\$ 11,990</b>                     | <b>\$ (39,545)</b>  |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|   | Emdeon Inc.        | Six Months Ended June 30, 2013 |                              | Consolidated       |
|---|--------------------|--------------------------------|------------------------------|--------------------|
|   |                    | Guarantor<br>Subsidiaries      | Consolidating<br>Adjustments |                    |
| Net income (loss)   | \$ (41,720)        | \$ 2,451                       | \$ (2,451)                   | \$ (41,720)        |
| Other comprehensive income (loss):                        |                    |                                |                              |                    |
| Changes in fair value of interest rate swap, net of taxes | 3,575              |                                |                              | 3,575              |
| Foreign currency translation adjustment                   |                    | (99)                           |                              | (99)               |
| Equity in other comprehensive earnings                    | (99)               |                                | 99                           |                    |
| Other comprehensive income (loss)                         | 3,476              | (99)                           | 99                           | 3,476              |
| <b>Total comprehensive income (loss)</b>                  | <b>\$ (38,244)</b> | <b>\$ 2,352</b>                | <b>\$ (2,352)</b>            | <b>\$ (38,244)</b> |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|   | <b>Emdeon Inc.</b> | <b>Six Months Ended June 30, 2012</b> |                      |                     |
|---|--------------------|---------------------------------------|----------------------|---------------------|
|   |                    | <b>Guarantor</b>                      | <b>Consolidating</b> | <b>Consolidated</b> |
|   |                    | <b>Subsidiaries</b>                   | <b>Adjustments</b>   |                     |
| Net income (loss)   | \$ (52,928)        | \$ (7,742)                            | \$ 7,742             | \$ (52,928)         |
| Other comprehensive income (loss):                        |                    |                                       |                      |                     |
| Changes in fair value of interest rate swap, net of taxes | (2,334)            |                                       |                      | (2,334)             |
| Foreign currency translation adjustment                   |                    | 234                                   |                      | 234                 |
| Equity in other comprehensive earnings                    | 234                |                                       | (234)                |                     |
| Other comprehensive income (loss)                         | (2,100)            | 234                                   | (234)                | (2,100)             |
| <b>Total comprehensive income (loss)</b>                  | <b>\$ (55,028)</b> | <b>\$ (7,508)</b>                     | <b>\$ 7,508</b>      | <b>\$ (55,028)</b>  |

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Statement of Cash Flows**

|  | Emdeon Inc. | Six Months Ended June 30, 2013<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|-------------|---|------------------------------|--------------|
| <b>Operating activities</b>  |             |   |                              |              |
| Net income (loss)  | \$ (41,720) | \$ 2,451  | \$ (2,451)                   | \$ (41,720)  |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |             |   |                              |              |
| Depreciation and amortization  | 4,502       | 86,260  |                              | 90,762       |
| Accretion expense  | 11,599      |   |                              | 11,599       |
| Equity compensation expense  | 88          | 3,459   |                              | 3,547        |
| Deferred income tax benefit  | (24,482)    | (2,969)   |                              | (27,451)     |
| Amortization of debt discount and issuance costs   | 1,243       | 3,474   |                              | 4,717        |
| Equity in earnings of consolidated subsidiaries  | (2,451)     |   | 2,451                        |              |
| Loss on extinguishment of debt   | 478         | 22,350  |                              | 22,828       |
| Other  |             | 1,861   |                              | 1,861        |
| Changes in operating assets and liabilities:   |             |   |                              |              |
| Accounts receivable  |             | (10,208)  |                              | (10,208)     |
| Prepaid expenses and other   | (1,023)     | 326   |                              | (697)        |
| Accounts payable   |             | 5,498   |                              | 5,498        |
| Accrued expenses, deferred revenue, and other liabilities  | 31,499      | (7,960)   |                              | 23,539       |
| Tax receivable agreement obligations to related parties  | (103)       |   |                              | (103)        |
| Due to/from affiliates   | 1,375       | (1,375)   |                              |              |
| Net cash provided by (used in) operating activities  | (18,995)    | 103,167   |                              | 84,172       |
| <b>Investing activities</b>  |             |   |                              |              |
| Purchases of property and equipment  |             | (33,246)  |                              | (33,246)     |
| Payments for acquisitions, net of cash acquired  |             | (18,291)  |                              | (18,291)     |
| Investment in subsidiaries, net  | 50,281      |   | (50,281)                     |              |
| Net cash provided by (used in) investing activities  | 50,281      | (51,537)  | (50,281)                     | (51,537)     |
| <b>Financing activities</b>  |             |   |                              |              |
| Distributions to Emdeon Inc., net  |             | (50,281)  | 50,281                       |              |
| Debt principal payments  | (142)       | (6,330)   |                              | (6,472)      |
| Payment of loan costs  |             | (2,178)   |                              | (2,178)      |
| Repayment of deferred financing arrangements   |             | (1,844)   |                              | (1,844)      |
| Repurchase of Parent common stock  |             | (250)   |                              | (250)        |
| Other  |             | (735)   |                              | (735)        |
| Net cash provided by (used in) financing activities  | (142)       | (61,618)  | 50,281                       | (11,479)     |
| Net increase in cash and cash equivalents  | 31,144      | (9,988)   |                              | 21,156       |
| Cash and cash equivalents at beginning of period   | 754         | 31,009  |                              | 31,763       |

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|  |           |           |    |           |
|--|-----------|-----------|----|-----------|
| Cash and cash equivalents at end of period | \$ 31,898 | \$ 21,021 | \$ | \$ 52,919 |
|--|-----------|-----------|----|-----------|

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

(unaudited and amounts in thousands, except share and per share amounts)

**Condensed Consolidating Statement of Cash Flows**

|  | <b>Emdeon Inc.</b> | <b>Six Months Ended June 30, 2012<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|--|--------------------|--|--------------------------------------|---------------------|
| <b>Operating activities</b>  |                    |  |                                      |                     |
| Net income (loss)  | \$ (52,928)        | \$ (7,742)   | \$ 7,742                             | \$ (52,928)         |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                    |  |                                      |                     |
| Depreciation and amortization  | 4,503              | 87,279   |                                      | 91,782              |
| Accretion expense  | 12,346             |  |                                      | 12,346              |
| Deferred income tax benefit  | (23,662)           | (4,404)  |                                      | (28,066)            |
| Amortization of debt discount and issuance costs   | 1,096              | 3,977  |                                      | 5,073               |
| Equity in earnings of consolidated subsidiaries  | 7,742              |  | (7,742)                              |                     |
| Loss on extinguishment of debt   |                    | 18,293   |                                      | 18,293              |
| Other  |                    | 227  |                                      | 227                 |
| Changes in operating assets and liabilities:   |                    |  |                                      |                     |
| Accounts receivable  |                    | 1,062  |                                      | 1,062               |
| Prepaid expenses and other   | (1,623)            | (2,043)  |                                      | (3,666)             |
| Accounts payable   |                    | 3,231  |                                      | 3,231               |
| Accrued expenses, deferred revenue, and other liabilities  | 26,379             | (19,241)   |                                      | 7,138               |
| Tax receivable agreement obligations to related parties  | (114)              |  |                                      | (114)               |
| Due to/from affiliates   | 4,246              | (4,246)  |                                      |                     |
| Net cash provided by (used in) operating activities  | (22,015)           | 76,393   |                                      | 54,378              |
| <b>Investing activities</b>  |                    |  |                                      |                     |
| Purchases of property and equipment  |                    | (27,430)   |                                      | (27,430)            |
| Payments for acquisitions, net of cash acquired  |                    | (59,013)   |                                      | (59,013)            |
| Investment in subsidiaries, net  | 21,866             |  | (21,866)                             |                     |
| Net cash provided by (used in) investing activities  | 21,866             | (86,443)   | (21,866)                             | (86,443)            |
| <b>Financing activities</b>  |                    |  |                                      |                     |
| Distributions to Emdeon Inc., net  |                    | (21,866)   | 21,866                               |                     |
| Proceeds from Term Loan Facility   | (207)              | 70,558   |                                      | 70,351              |
| Debt principal payments  | (135)              | (6,177)  |                                      | (6,312)             |
| Payments on Revolving Facility   |                    | (15,000)   |                                      | (15,000)            |
| Payment of loan costs  | (34)               | (2,026)  |                                      | (2,060)             |
| Repurchase of Parent common stock  |                    | (317)  |                                      | (317)               |
| Other  |                    | (135)  |                                      | (135)               |
| Net cash provided by (used in) financing activities  | (376)              | 25,037   | 21,866                               | 46,527              |
| Net increase (decrease) in cash and cash equivalents   | (525)              | 14,987   |                                      | 14,462              |
| Cash and cash equivalents at beginning of period   | 572                | 37,353   |                                      | 37,925              |



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|  |       |           |           |
|--|-------|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 47 | \$ 52,340 | \$ 52,387 |
|--|-------|-----------|-----------|

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes in Part I, Item 1 of this Quarterly Report on Form 10-Q ( Quarterly Report ), together with the risk factors contained in the section titled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 ( Form 10-K ) on file with the Securities and Exchange Commission ( SEC ).

Unless stated otherwise or the context otherwise requires, references in this Quarterly Report to we , us , our , Emdeon and the Company refer to Emdeon Inc. and its subsidiaries.

**Forward-Looking Statements**

This Quarterly Report includes certain forward-looking statements within the meaning of the federal securities laws regarding, among other things, our or management's intentions, plans, beliefs, expectations or predictions of future events, which are considered forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as may, will, should, believe, expect, anticipate, intend, plan, estimate or similar expressions. Forward-looking statements are based upon assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read this Quarterly Report, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions, including those described under the heading Risk Factors in our Form 10-K. Although we believe that these forward-looking statements are based upon reasonable assumptions, you should be aware that many factors, including those described under the heading Risk Factors in our Form 10-K, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

Our forward-looking statements made herein speak only as of the date on which made. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements made herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Quarterly Report.

**Overview**

We are a leading provider of revenue and payment cycle management and clinical information exchange solutions connecting payers, providers and patients in the United States healthcare system. Our solutions integrate and automate key business and administrative functions of our payer and provider customers throughout the patient encounter, including pre-care patient eligibility and benefits verification and enrollment, clinical information exchange capabilities, claims management and adjudication, payment integrity, payment distribution, payment posting and denial management and patient billing and payment services. Our customers are able to improve efficiency, reduce costs, increase cash flow and more efficiently manage the complex revenue and payment cycle and clinical information exchange processes by using our comprehensive suite of solutions.

We deliver our solutions and operate our business in four operating segments: (i) payer services, which provides solutions to commercial insurance companies, third party administrators and governmental payers; (ii) provider revenue cycle solutions, which provides solutions primarily to hospitals and large physician practices; (iii) ambulatory provider services, which provides solutions, both directly and through our channel partners, primarily to small physician practices, dentists, labs and other healthcare providers; and (iv) pharmacy services, which provides solutions to pharmacies, pharmacy benefit management companies, government agencies and other payers. Through our payer services segment, we provide payment cycle solutions that simplify the administration of

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healthcare related to insurance eligibility and benefit verification, claims management, payment integrity and payment distribution. Additionally, we provide consulting services through our payer services segment. Through our provider revenue cycle solutions segment, we provide revenue cycle management solutions, government program eligibility and enrollment services and provider payment integrity solutions that simplify providers' revenue cycle and workflow, reduce related costs and improve cash flow. Through our ambulatory provider services segment, we provide, both directly and through our channel partners, revenue cycle management solutions and patient billing and payment services that simplify providers' revenue cycle and workflow, reduce related costs and improve cash flow. Through our pharmacy services segment, we provide electronic prescribing and other electronic solutions related to prescription benefit claim filing, adjudication and management.

There are a number of company-specific initiatives and industry trends that may affect our transaction volumes, revenues, cost of operations and margins. As part of our strategy, we encourage our customers to migrate from paper-based claim, patient billing and payment, payment distribution and other transaction processing to electronic, automated processing in order to improve efficiency. Our business is aligned with our customers to support this transition, and as they migrate from paper-based transaction processing to electronic processing, even though our revenues for an applicable customer generally will decline, our margins and profitability will typically increase. For example, because the cost of postage is included in our revenues for patient billing and payment services (which is then also deducted as a cost of operations), when our customers transition to electronic processing, our revenues and costs of operations are expected to decrease as we will no longer incur or be required to charge for postage. As another example, as our payer customers migrate to exclusive or other comprehensive management services agreements with us, our electronic transaction volume usually increases while the rebates we pay and the per transaction rates we charge under these agreements are typically reduced.

Part of our strategy also includes the development and introduction of new solutions. Our new and updated solutions are likely to require us to incur development and engineering expenditures, both operating and capital, and related sales and marketing costs at levels greater than recent years' expenditures in order to successfully develop and achieve market acceptance of such solutions. We also may acquire, or enter into agreements with third parties to assist us in providing, new solutions. For example, we offer our electronic payment solutions through banks or vendors who contract with banks and other financial service firms. The costs of these initiatives or the failure to achieve broad penetration in target markets with respect to new or updated solutions may negatively affect our results of operations, margins and cash flow. Because newly introduced solutions generally will have lower margins initially as compared to our existing and more mature solutions, our margins and our margin growth may be adversely affected on a percentage basis until these new solutions achieve scale and maturity.

In addition to our internal development efforts, we actively evaluate opportunities to improve and expand our solutions through strategic acquisitions. Our acquisition strategy focuses on identifying acquisitions that improve and streamline the business and administrative functions of healthcare. We believe our broad customer footprint allows us to deploy acquired solutions into our installed base, which, in turn, can help accelerate growth of our acquired businesses. We also believe our management team's ability to identify acquisition opportunities that are complementary and synergistic to our business, and to integrate them into our existing operations with minimal disruption, will continue to play an important role in the expansion of our business and our growth. Our success in acquiring and integrating acquired businesses into our existing operations, the associated costs of such acquisitions, including integration costs, and the operating characteristics of the acquired businesses also may impact our results of operations and margins. Because the businesses we acquire sometimes have lower margins than our existing businesses, primarily as a result of their lack of scale and maturity, our margins on a percentage basis may be adversely affected in the periods subsequent to an acquisition from revenue mix changes and integration activities associated with these acquisitions.

We also expect to continue to be affected by general economic, regulatory and demographic factors affecting the healthcare industry. For several years, there has been pricing pressure in our industry, particularly as it relates to our claims management solutions, which has led and is expected to continue to lead to reduced prices for the same services. We have sought in the past and will continue to seek to mitigate pricing pressure by providing additional value-added solutions, increasing the volume of solutions we provide and managing our costs. In addition, significant changes in regulatory schemes, such as the updated Health Insurance Portability and Accountability Act of 1996, American Recovery and Reinvestment Act of 2009, the Patient Protection and Affordable Care Act (ACA) and other federal healthcare policy initiatives, impact our customers' healthcare activities and can result in increased operating costs and capital expenditures for us. In particular, we believe the ACA will significantly affect the regulatory

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environment in which we and our customers operate by changing how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced federal healthcare program spending, increased efforts to link federal healthcare program payments to quality and efficiency and insurance market reforms. Also, changes in federal and state reimbursement patterns and rates can impact the revenues in certain of our business lines, particularly our government program eligibility and enrollment solutions.

Demographic trends affecting the healthcare industry, such as population growth and aging or continued high unemployment rates as a result of recent adverse economic conditions, also could affect the frequency and nature of our customers' healthcare transactional activity. The impact of such changes could impact our revenues, cost of operations and infrastructure expenses and thereby affect our results of operations and the way we operate our business. For example, an increase in the United States population, if such increase is accompanied by an increase in the United States population that has health benefits, or the aging of the United States population, which requires an overall increased need for healthcare services, may result in an increase in our transaction volumes which, in turn, may increase our revenues and cost of operations. Alternatively, a recurrence of the recent general economic downturn, which reduces the number of discretionary health procedures by patients, or a persistent high unemployment rate, which lessens healthcare utilization, may decrease or offset other growth in our transaction volumes, which, in turn, may adversely impact our revenues and cost of operations.

### **Recent Developments**

Effective January 1, 2013, we reorganized our operating segments as payer services, provider revenue cycle solutions, ambulatory provider services and pharmacy services. This discussion and analysis related to prior periods has been restated to reflect our current organizational structure.

In April 2013, we amended the credit agreement (the "Senior Credit Agreement") governing our senior secured term loan facility (the "Term Loan Facility") and senior secured revolving credit facility (the "Revolving Facility"; together with the Term Loan Facility, the "Senior Credit Facilities") to reprice the Senior Credit Facilities. Following this amendment, the interest rate on the Term Loan Facility is LIBOR plus 2.50%, compared to the previous interest rate of LIBOR plus 3.75%. The new interest rate on the Revolving Facility is LIBOR plus 2.50%, compared to the previous interest rate of LIBOR plus 3.50% (or 3.25% based on a specified first lien net leverage ratio). The Term Loan Facility remains subject to a LIBOR floor of 1.25%, and there continues to be no LIBOR floor on the Revolving Facility. In connection with the repricing, the Senior Credit Agreement also was amended to, among other things, eliminate the financial covenant related to the consolidated cash interest coverage ratio and modify the financial covenant related to the net leverage test by maintaining the required first lien net leverage ratio at its current level for the remaining term of the Senior Credit Facilities.

In June 2013, we acquired all of the equity interests of Goold Health Systems ("Goold"), a technology-enabled provider of pharmacy benefit and related services primarily to State Medicaid agencies across the nation.

### **Our Revenues and Expenses**

We generate virtually all of our revenue by using technology solutions to provide our customers services that automate and simplify business and administrative functions for payers, providers and pharmacies generally on either a per transaction, per document, per communication, per member per month, monthly flat-fee, contingent fee or hourly basis.

Cost of operations consists primarily of costs related to services we provide to customers and costs associated with the operation and maintenance of our networks. These costs primarily include postage and materials costs related to our patient billing and payment and payment distribution services, rebates paid to our channel partners and data communications costs, all of which generally vary with our revenues and/or volumes. Cost of operations also includes personnel costs associated with production, network operations, customer support and other personnel, facilities expenses and equipment maintenance, all of which vary less directly with our revenue and/or volumes due to the fixed or semi-fixed nature of these expenses.

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The largest component of our cost of operations is postage, which is incurred in our patient billing and payment and payment distribution services businesses and which is also a component of our revenue in those businesses. Our postage costs increase as our patient billing and payment services volumes increase and also when the United States Postal Service ( USPS ) increases postage rates. Postage rate increases, while generally billed as pass-through costs to our customers, affect our cost of operations as a percentage of revenue. In prior years, we have offset the impact of postage rate increases on cost of operations as a percentage of revenue through cost reductions from efficiency measures, including data communication expense reductions and production efficiencies. Though we plan to implement additional efficiency measures, we may not be able to offset the impact of postage rate increases in the future and, as a result, cost of operations as a percentage of revenue may increase if postage rate increases continue. Although the USPS historically has increased postage rates annually in most recent years, including in January 2013, the frequency and nature of such annual increases may not occur as regularly in the future.

Rebates are paid to channel partners for electronic and other volumes delivered through our network to certain payers and can be impacted by the number of exclusive or other comprehensive management services agreements we execute with payers, the associated rate structure with our payer customers, the success of our direct sales efforts to providers and the extent to which direct connections to payers are developed by our channel partners.

Our data communication expense consists of telecommunication and transaction processing charges.

Our material costs relate primarily to our patient billing and payment and payment distribution services volumes, and consist primarily of paper and printing costs.

Development and engineering expense consists primarily of personnel costs related to the development, management and maintenance of our current and future solutions. We may invest more in this area in the future as we develop new and enhance existing solutions.

Sales, marketing, general and administrative expense consists primarily of personnel costs associated with our sales, account management and marketing functions, as well as management, administrative and other shared corporate services related to the operations of our operating segments and overall business operations.

Our development and engineering expense and sales, marketing, general and administrative expense, while related to our current operations, also are affected and influenced by our future plans including the development of new solutions, business strategies and enhancement and maintenance of our infrastructure.

Our depreciation and amortization expense is related to depreciation of our property and equipment, including technology assets, and amortization of intangible assets acquired and recorded in conjunction with acquisition method accounting. As a result, the amount of depreciation and amortization expense is affected by the level of our recent investment in property and equipment and acquisition activity.

Our interest expense consists principally of cash interest associated with our long-term debt obligations and non-cash interest associated with the amortization of borrowing costs and discounts related to debt issuance. If market interest rates on the variable portion of our long-term debt increase in the future, and our long-term debt obligations remain stable or increase, our interest expense will increase.

Our income taxes consist of federal and state income taxes. These amounts include current income taxes payable, as well as income taxes for which the payment is deferred to future periods and dependent on the occurrence of future events. Our income tax expense may vary from the expense that would be expected based on statutory rates due principally to our organizational structure and differences in the book and tax basis of our investment in EBS Master LLC. The recognition of valuation allowances related to certain net operating loss carryovers also can affect our income tax expense.

**Table of Contents****Significant Items Affecting Comparability**

Certain significant items or events should be considered to better understand differences in our results of operations from period to period. We believe that the following items or events have had a significant impact on our results of operations for the periods discussed below or may have a significant impact on our results of operations in future periods:

**Acquisitions and Divestitures**

We actively evaluate opportunities to improve and expand our business through targeted acquisitions that are consistent with our strategy. On occasion, we also may dispose of certain components of our business that no longer fit within our overall strategy. Because of our acquisition activity, our results of operations may not be directly comparable among periods. The following summarizes our acquisition transactions since January 1, 2012 and affected segments:

| Date      | Business                 | Description   | Affected Segment  |
|-----------|--------------------------|---|-------------------|
| May 2012  | TC3 Health, Inc. ( TC3 ) | Technology-enabled provider of cost containment and payment integrity solutions                           | Payer Services    |
| June 2013 | Goold                    | Technology-enabled provider of pharmacy benefit and related services primarily to State Medicaid agencies | Pharmacy Services |

**Income Taxes**

Our blended statutory federal and state income tax rate ranges from 37% to 40%. Our effective income tax rate, however, can be affected by several factors. The following table and subsequent commentary reconcile our federal statutory rate to our effective income tax rate, and the subsequent commentary describes the more significant of the reconciling factors:

|   | Six Months Ended<br>June 30, 2013 | Six Months Ended<br>June 30, 2012 |
|---|-----------------------------------|-----------------------------------|
| Statutory United States federal tax rate    | 35.0%                             | 35.0%                             |
| State income taxes (net of federal benefit) | 4.3                               | (0.6)                             |
| Other                                       | (0.4)                             | (0.4)                             |
| Effective income tax rate                   | 38.9%                             | 34.0%                             |

*State Income Taxes* Our effective tax rate for state income taxes is generally impacted by changes in our uncertain tax positions and apportionment. In addition, during the six months ended June 30, 2013, we changed our methodology of estimating state income taxes from a separate state return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

**Stock-Based and Equity Compensation Expense**

Beagle Parent Corp. ( Parent ) has granted equity-based awards to certain employees and directors to purchase shares of Parent common stock. In connection with these equity-based award grants, we incurred equity compensation expense of \$1.8 million and \$3.5 million for the three and six months ended June 30, 2013. No equity compensation expense was recognized for the three and six months ended June 30, 2012.

**Amendments of the Senior Credit Agreement**

Our interest expense primarily is affected by the amount of debt funding and the applicable variable interest rates, including a fixed spread, under our Senior Credit Agreement. In April 2012, we amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80.0 million of additional term loans for general corporate purposes, including acquisitions. As a result of these amendments, the LIBOR-based

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interest rate applicable to the Senior Credit Facilities was generally reduced by 175 basis points. The Senior Credit Agreement was further amended in April 2013 to further reduce the LIBOR-based interest rate by an additional 125 basis points, and also to modify certain financial covenants.

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**Critical Accounting Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts and related disclosures. We consider an accounting estimate to be critical if:

it requires assumptions to be made that were uncertain at the time the estimate was made; and

changes in the estimate or different estimates that could have been made could have a material impact on our consolidated results of operations and financial condition.

We believe the current assumptions and other considerations used to estimate amounts reflected in our unaudited condensed consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our unaudited condensed consolidated financial statements, the resulting changes could have a material adverse effect on our unaudited condensed consolidated results of operations and financial condition.

We believe there have been no significant changes during the three and six months ended June 30, 2013 to the items we disclosed as our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.



**Table of Contents****Results of Operations**

The following table summarizes our consolidated results of operations for the three and six months ended months ended June 30, 2013 and 2012, respectively (amounts in thousands).

|   | Three Months Ended<br>June 30, 2013 |                 | Three Months Ended<br>June 30, 2012 |                 | Six Months Ended<br>June 30, 2013 |                 | Six Months Ended<br>June 30, 2012 |                 |
|---|-------------------------------------|-----------------|-------------------------------------|-----------------|-----------------------------------|-----------------|-----------------------------------|-----------------|
|   | Amount                              | % of<br>Revenue | Amount                              | % of<br>Revenue | Amount                            | % of<br>Revenue | Amount                            | % of<br>Revenue |
| Revenues  | \$ 311,485                          | 100.0%          | \$ 294,467                          | 100.0%          | \$ 617,187                        | 100.0%          | \$ 580,503                        | 100.0%          |
| Cost and expenses:  |                                     |                 |                                     |                 |                                   |                 |                                   |                 |
| Cost of operations (exclusive of depreciation and amortization below) | 193,816                             | 62.2            | 180,090                             | 61.2            | 383,122                           | 62.1            | 353,236                           | 60.8            |
| Development and engineering   | 7,644                               | 2.5             | 8,590                               | 2.9             | 15,366                            | 2.5             | 17,676                            | 3.0             |
| Sales, marketing, general and administrative                          | 42,945                              | 13.8            | 39,040                              | 13.3            | 82,056                            | 13.3            | 75,169                            | 12.9            |
| Depreciation and amortization   | 43,946                              | 14.1            | 46,626                              | 15.8            | 90,762                            | 14.7            | 91,782                            | 15.8            |
| Accretion   | 7,459                               | 2.4             | 8,579                               | 2.9             | 11,599                            | 1.9             | 12,346                            | 2.1             |
| Operating income  | 15,675                              | 5.0             | 11,542                              | 3.9             | 34,282                            | 5.6             | 30,294                            | 5.2             |
| Interest expense, net   | 37,974                              | 12.2            | 42,902                              | 14.6            | 79,389                            | 12.9            | 88,641                            | 15.3            |
| Loss on extinguishment of debt  | 23,160                              | 7.4             | 21,853                              | 7.4             | 23,160                            | 3.8             | 21,853                            | 3.8             |
| Income (loss) before income tax provision (benefit)                   | (45,459)                            | (14.6)          | (53,213)                            | (18.1)          | (68,267)                          | (11.1)          | (80,200)                          | (13.8)          |
| Income tax provision (benefit)  | (17,191)                            | (5.5)           | (17,820)                            | (6.1)           | (26,547)                          | (4.3)           | (27,272)                          | (4.7)           |
| Net income (loss)   | \$ (28,268)                         | (9.1)%          | \$ (35,393)                         | (12.0)%         | \$ (41,720)                       | (6.8)%          | \$ (52,928)                       | (9.1)%          |

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**Table of Contents****Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012*****Revenues***

Our total revenues were \$311.5 million for the three months ended June 30, 2013 as compared to \$294.5 million for the three months ended June 30, 2012, an increase of \$17.0 million, or 5.8%.

On an overall basis, revenues were adversely affected during the three months ended June 30, 2013 and 2012 by the continued impact of lower healthcare utilization driven by high unemployment and other economic factors. These negative impacts on revenue for the three months ended June 30, 2013 were offset partially by acquisition accounting adjustments in connection with our acquisition by affiliates of The Blackstone Group L.P. in November 2011 and the related financing transactions (collectively, the 2011 Transactions ), which reduced the revenue that would have otherwise been recognized in the prior year period. Additional factors affecting our revenues are described in the various segment discussions below.

***Cost of Operations***

Our total cost of operations was \$193.8 million for the three months ended June 30, 2013 as compared to \$180.1 million for the three months ended June 30, 2012, an increase of \$13.7 million, or 7.6%. As a percentage of revenue, our cost of operations was 62.2% for the three months ended June 30, 2013 as compared to 61.2% for the three months ended June 30, 2012. The increase in our cost of operations is primarily due to volume growth, including the impact of the United States postage rate increases effective in April 2012 and January 2013, the inclusion of the acquired TC3 and Goold businesses and increased strategic growth initiative and non-employee labor costs. The increase as a percentage of revenue was primarily due to changes in revenue mix, the impact of the United States postage rate increases and increased equity compensation expense and strategic growth initiative costs for the three months ended June 30, 2013.

***Development and Engineering Expense***

Our total development and engineering expense was \$7.6 million for the three months ended June 30, 2013 as compared to \$8.6 million for the three months ended June 30, 2012, a decrease of \$0.9 million, or 11.0%. The decrease in our development and engineering expense is primarily due to labor utilization and other efficiencies.

***Sales, Marketing, General and Administrative Expense***

Our total sales, marketing, general and administrative expense was \$42.9 million for the three months ended June 30, 2013 as compared to \$39.0 million for the three months ended June 30, 2012, an increase of \$3.9 million, or 10.0%. The increase in our sales, marketing, general and administrative expense was primarily due to increased equity compensation expense, the inclusion of the acquired TC3 and Goold businesses, the disposal of a legacy product and increased strategic growth initiative costs for the three months ended June 30, 2013, partially offset by a reduction in fees associated with the April 2012 and April 2013 amendments of the Senior Credit Facilities and other professional fees.

***Depreciation and Amortization Expense***

Our depreciation and amortization expense was \$43.9 million for the three months ended June 30, 2013 as compared to \$46.6 million for the three months ended June 30, 2012, a decrease of \$2.7 million, or 5.7%. This decrease was primarily due to the full amortization of our backlog intangible assets that were initially recorded in connection with the 2011 Transactions.

***Accretion Expense***

Our accretion expense was \$7.5 million for the three months ended June 30, 2013 as compared to \$8.6 million for the three months ended June 30, 2012. The amount recognized as accretion expense can vary significantly from period to period due to changes in estimates related to the amount or timing of our tax receivable agreement obligation payments. Such changes can result from a variety of factors, including changes in tax rates and the expected timing of prior net operating loss utilization, which can be affected by business combinations, changes in leverage, operations or other factors.

**Table of Contents****Interest Expense**

Our interest expense was \$38.0 million for the three months ended June 30, 2013 as compared to \$42.9 million for the three months ended June 30, 2012, a decrease of \$4.9 million, or 11.5%. Interest expense for the three months ended June 30, 2013 includes the effect of lower interest rates on the Senior Credit Facilities as a result of the April 2012 and April 2013 repricing transactions.

**Income Taxes**

Our income tax benefit was \$17.2 million for the three months ended June 30, 2013 as compared to an income tax benefit of \$17.8 million for the three months ended June 30, 2012. Our effective tax rate was 37.8% for the three months ended June 30, 2013 as compared to 33.5% for the three months ended June 30, 2012. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to a change in our methodology of estimating state income taxes from a separate state return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

**Segment Revenues and Adjusted EBITDA**

We operate our business in four operating segments: payer services, provider revenue cycle solutions, ambulatory provider services and pharmacy services. In addition, we maintain a corporate function which includes management, administrative and other shared corporate services such as information technology, legal, finance, human resources, marketing and product management.

Financial information for each of our segments is set forth in Note 12 to the unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report. The segment profit measure primarily utilized by management is adjusted EBITDA which is defined as EBITDA (defined as net income before income tax provision (benefit), net interest expense and depreciation and amortization), plus certain other non-cash or non-operating items. The non-cash or other non-operating items affecting the segment profit measure generally include equity compensation; acquisition accounting adjustments; acquisition-related costs; and strategic initiatives, duplicative and transition costs. Adjusted EBITDA for the respective segments excludes all costs and adjustments associated with the above-referenced corporate functions.

**Payer Services**

Our payer services segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                               | June 30,<br>2013 | June 30,<br>2012 | \$ Change |
|-------------------------------|------------------|------------------|-----------|
| Revenue:                      |                  |                  |           |
| Claims management             | \$ 69,069        | \$ 60,276        | \$ 8,793  |
| Payment distribution services | 64,934           | 63,919           | 1,015     |
| Intersegment revenue          | 1,280            | 1,022            | 258       |
|                               | \$ 135,283       | \$ 125,217       | \$ 10,066 |
| Adjusted EBITDA               | \$ 54,981        | \$ 50,785        | \$ 4,196  |

Claims management revenue for the three months ended June 30, 2013 increased by \$8.8 million, or 14.6%, as compared to the prior year period. Claims management revenue for the three months ended June 30, 2013 included \$10.9 million related to the TC3 acquisition as compared to \$6.0 in the prior year period. Excluding this revenue, claims management revenue for the three months ended June 30, 2013 increased by \$3.8 million, or 7.1%, as compared to the prior year period. This increase was primarily due to new sales and implementations, partially offset by the impact of market pricing pressures on our transaction rates.

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Payment distribution services revenues for the three months ended June 30, 2013 increased by \$1.0 million, or 1.6%, as compared to the prior year period. This increase was primarily driven by new sales and implementations and the impact of the United States postage rate increase effective in January 2013, partially offset by customer attrition.

Payer services adjusted EBITDA for the three months ended June 30, 2013 increased by \$4.2 million, or 8.3%, as compared to the prior year period. As a percentage of revenue, payer services adjusted EBITDA was 40.6% for both the three months ended June 30, 2013 and 2012. The increase in payer services adjusted EBITDA was primarily due to the impact of the revenue items described above, including the TC3 acquisition, partially offset by increased strategic growth initiative costs.

**Provider Revenue Cycle Solutions**

Our provider revenue cycle solutions segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                          | June 30,<br>2013 | June 30,<br>2012 | \$ Change |
|--------------------------|------------------|------------------|-----------|
| Revenue:                 |                  |                  |           |
| Revenue cycle technology | \$ 30,211        | \$ 27,335        | \$ 2,876  |
| Revenue cycle services   | 30,752           | 29,394           | 1,358     |
| Intersegment revenue     | 425              | 194              | 231       |
|                          | \$ 61,388        | \$ 56,923        | \$ 4,465  |
| Adjusted EBITDA          | \$ 23,777        | \$ 23,478        | \$ 299    |

Revenue cycle technology revenue for the three months ended June 30, 2013 increased by \$2.9 million, or 10.5%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Revenue cycle services revenue for the three months ended June 30, 2013 increased by \$1.4 million, or 4.6%, as compared to the prior year period primarily due to new sales and implementations, partially offset by the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment services.

Provider revenue cycle solutions adjusted EBITDA for the three months ended June 30, 2013 increased by \$0.3 million, or 1.3%, as compared to the prior year period. As a percentage of revenue, provider revenue cycle solutions adjusted EBITDA was 38.7% for the three months ended June 30, 2013 as compared to 41.2% for the three months ended June 30, 2012. The increase in provider revenue cycle solutions adjusted EBITDA was primarily due to the impact of the revenue items described above, partially offset by increased labor costs in our government program eligibility and enrollment services in advance of related revenues, the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment services and increased strategic growth initiative costs. The decrease as a percentage of revenue was primarily due to the increased labor costs and changing reimbursement patterns and rates in our government program eligibility and enrollment services and increased strategic growth initiative costs discussed above.

**Table of Contents*****Ambulatory Provider Services***

Our ambulatory provider services segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                                      | June 30,<br>2013 | June 30,<br>2012 | \$ Change      |
|--------------------------------------|------------------|------------------|----------------|
| <b>Revenue:</b>                      |                  |                  |                |
| Patient billing and payment services | \$ 64,065        | \$ 64,661        | \$ (596)       |
| Physician services                   | 18,832           | 17,970           | 862            |
| Dental                               | 8,209            | 8,028            | 181            |
|                                      | <b>\$ 91,106</b> | <b>\$ 90,659</b> | <b>\$ 447</b>  |
| <br>Adjusted EBITDA                  | <br>\$ 23,740    | <br>\$ 24,778    | <br>\$ (1,038) |

Patient billing and payment services revenue for the three months ended June 30, 2013 decreased by \$0.6 million, or 0.9%, as compared to the prior year period primarily due to customer attrition, partially offset by new sales and implementations and the impact of the United States postage rate increase effective in January 2013.

Physician services revenue for the three months ended June 30, 2013 increased by \$0.9 million, or 4.8%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Dental revenues for the three months ended June 30, 2013 were generally consistent with those reflected in the prior year period.

Ambulatory provider services adjusted EBITDA for the three months ended June 30, 2013 decreased by \$1.0 million, or 4.2%, as compared to the prior year period. As a percentage of revenue, ambulatory provider services adjusted EBITDA was 26.1% for the three months ended June 30, 2013 as compared to 27.3% for the three months ended June 30, 2012. The decrease in ambulatory provider services adjusted EBITDA and as a percentage of revenue was primarily due to increased strategic growth initiative costs.

***Pharmacy Services***

Our pharmacy services revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                      | June 30,<br>2013 | June 30,<br>2012 | \$ Change       |
|----------------------|------------------|------------------|-----------------|
| <b>Revenue:</b>      |                  |                  |                 |
| Pharmacy services    | \$ 25,413        | \$ 22,884        | \$ 2,529        |
| Intersegment revenue | 85               | 87               | (2)             |
|                      | <b>\$ 25,498</b> | <b>\$ 22,971</b> | <b>\$ 2,527</b> |
| <br>Adjusted EBITDA  | <br>\$ 11,369    | <br>\$ 11,473    | <br>\$ (104)    |

Pharmacy services revenue for the three months ended June 30, 2013 increased by \$2.5 million, or 11.1%, as compared to the prior year period. Pharmacy services revenue for the three months ended June 30, 2013 included \$1.3 million related to the Goold acquisition. Excluding this revenue, pharmacy services revenue for the three months ended June 30, 2013 increased by \$1.2 million, or 5.8%, as compared to the prior year period. This increase was primarily due to new sales and implementations.

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Pharmacy services adjusted EBITDA for the three months ended June 30, 2013 decreased by \$0.1 million, or 0.9%, as compared to the prior year period. As a percentage of revenue, pharmacy services adjusted EBITDA was 44.6% for the three months ended June 30, 2013 as compared to 49.9% for the three months ended June 30, 2012. The decrease in pharmacy services adjusted EBITDA and as a percentage of revenue is primarily due to increased strategic growth initiative and channel partner costs, partially offset by the impact of the revenue items described above.

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**Table of Contents****Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012*****Revenues***

Our total revenues were \$617.2 million for the six months ended June 30, 2013 as compared to \$580.5 million for the six months ended June 30, 2012, an increase of \$36.7 million, or 6.3%.

On an overall basis, revenues were adversely affected during the six months ended June 30, 2013 and 2012 by the continued impact of lower healthcare utilization driven by high unemployment and other economic factors, and one less business day in the 2013 period as compared to the 2012 period. These negative impacts on revenue for the six months ended June 30, 2013 were offset partially by acquisition accounting adjustments in connection with the 2011 Transactions, which reduced the revenue that would have otherwise been recognized in the prior year period. Additional factors affecting our revenues are described in the various segment discussions below.

***Cost of Operations***

Our total cost of operations was \$383.1 million for the six months ended June 30, 2013 as compared to \$353.2 million for the six months ended June 30, 2012, an increase of \$29.9 million, or 8.5%. As a percentage of revenue, our cost of operations was 62.1% for the six months ended June 30, 2013 as compared to 60.8% for the six months ended June 30, 2012. The increase in our cost of operations is primarily due to volume growth, including the impact of the United States postage rate increases effective in April 2012 and January 2013, the inclusion of the acquired TC3 and Goold businesses and increased strategic growth initiative, acquisition-related and non-employee labor costs. The increase as a percentage of revenue was primarily due to changes in revenue mix, the impact of the United States postage rate increases and increased equity compensation expense for the six months ended June 30, 2013.

***Development and Engineering Expense***

Our total development and engineering expense was \$15.4 million for the six months ended June 30, 2013 as compared to \$17.7 million for the six months ended June 30, 2012, a decrease of \$2.3 million, or 13.1%. The decrease in our development and engineering expense is primarily due to labor utilization and other efficiencies.

***Sales, Marketing, General and Administrative Expense***

Our total sales, marketing, general and administrative expense was \$82.1 million for the six months ended June 30, 2013 as compared to \$75.2 million for the six months ended June 30, 2012, an increase of \$6.9 million, or 9.2%. The increase in our sales, marketing, general and administrative expense was primarily due to increased equity compensation expense, the inclusion of the acquired TC3 and Goold businesses, the disposal of a legacy product and increased strategic growth initiative costs for the six months ended June 30, 2013, partially offset by a reduction in fees associated with the April 2012 and April 2013 amendments of the Senior Credit Facilities, other professional fees and software maintenance costs.

***Depreciation and Amortization Expense***

Our depreciation and amortization expense was \$90.8 million for the six months ended June 30, 2013 as compared to \$91.8 million for the six months ended June 30, 2012, a decrease of \$1.0 million, or 1.1%. This decrease was primarily due to the full amortization of our backlog intangible assets that were initially recorded in connection with the 2011 Transactions, partially offset by amortization expense attributable to intangible assets recorded as a result of the TC3 acquisition and depreciation expense associated with property and equipment placed in service subsequent to June 30, 2012.

***Accretion Expense***

Our accretion expense was \$11.6 million for the six months ended June 30, 2013 as compared to \$12.3 million for the six months ended June 30, 2012. The amount recognized as accretion expense can vary significantly from period to period due to changes in

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estimates related to the amount or timing of our tax receivable agreement obligation payments. Such changes can result from a variety of factors, including changes in tax rates and the expected timing of prior net operating loss utilization, which can be affected by business combinations, changes in leverage, operations or other factors.

**Interest Expense**

Our interest expense was \$79.4 million for the six months ended June 30, 2013 as compared to \$88.6 million for the six months ended June 30, 2012, a decrease of \$9.3 million, or 10.4%. Interest expense for the six months ended June 30, 2013 includes the effect of lower interest rates on the Senior Credit Facilities as a result of the April 2012 and April 2013 repricing transactions, offset partially by additional borrowings in connection with the TC3 acquisition.

**Income Taxes**

Our income tax benefit was \$26.5 million for the six months ended June 30, 2013 as compared to an income tax benefit of \$27.3 million for the six months ended June 30, 2012. Our effective tax rate was 38.9% for the six months ended June 30, 2013 as compared to 34.0% for the six months ended June 30, 2012. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to a change in methodology of estimating state income taxes from a separate return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

**Segment Revenues and Adjusted EBITDA****Payer Services**

Our payer services revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                               | June 30,<br>2013 | June 30,<br>2012 | \$ Change |
|-------------------------------|------------------|------------------|-----------|
| Revenue:                      |                  |                  |           |
| Claims management             | \$ 135,150       | \$ 114,961       | \$ 20,189 |
| Payment distribution services | 130,884          | 127,795          | 3,089     |
| Intersegment revenue          | 2,114            | 1,905            | 209       |
|                               | \$ 268,148       | \$ 244,661       | \$ 23,487 |
| Adjusted EBITDA               | \$ 105,645       | \$ 99,922        | \$ 5,723  |

Claims management revenue for the six months ended June 30, 2013 increased by \$20.2 million, or 17.6%, as compared to the prior year period. Claims management revenue for the six months ended June 30, 2013 included \$19.4 million related to the TC3 acquisition as compared to \$6.0 million in the prior year period. Excluding this revenue, claims management revenue for the six months ended June 30, 2013 increased by \$6.8 million, or 6.2%, as compared to the prior year period. This increase was primarily due to new sales and implementations, partially offset by the impact of market pricing pressures on our transaction rates.

Payment distribution services revenues for the six months ended June 30, 2013 increased by \$3.1 million, or 2.4%, as compared to the prior year period. This increase was primarily driven by new sales and implementations and the impact of the United States postage rate increase effective in January 2013, partially offset by customer attrition.

Payer services adjusted EBITDA for the six months ended June 30, 2013 increased by \$5.7 million, or 5.7%, as compared to the prior year period. As a percentage of revenue, payer services adjusted EBITDA was 39.4% for the six months ended June 30, 2013 as compared to 40.8% for the six months ended June 30, 2012. The increase in payer services adjusted EBITDA was primarily due to the impact of the revenue items described above, including the TC3 acquisition, partially offset by increased strategic growth initiative costs. The decrease as a percentage of revenue was primarily due to changes in revenue mix, the impact of the United States postage rate increase effective in January 2013 and increased strategic growth initiative costs.





**Table of Contents****Provider Revenue Cycle Solutions**

Our provider revenue cycle solutions segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                          | June 30,<br>2013  | June 30,<br>2012  | \$ Change       |
|--------------------------|-------------------|-------------------|-----------------|
| <b>Revenue:</b>          |                   |                   |                 |
| Revenue cycle technology | \$ 59,277         | \$ 53,399         | \$ 5,878        |
| Revenue cycle services   | 61,101            | 57,369            | 3,732           |
| Intersegment revenue     | 661               | 438               | 223             |
|                          | <b>\$ 121,039</b> | <b>\$ 111,206</b> | <b>\$ 9,833</b> |
| <br>Adjusted EBITDA      | <br>\$ 47,838     | <br>\$ 45,328     | <br>\$ 2,510    |

Revenue cycle technology revenue for the six months ended June 30, 2013 increased by \$5.9 million, or 11.0%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Revenue cycle services revenue for the six months ended June 30, 2013 increased by \$3.7 million, or 6.5%, as compared to the prior year period primarily due to new sales and implementations, partially offset by the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment services.

Provider revenue cycle solutions adjusted EBITDA for the six months ended June 30, 2013 increased by \$2.5 million, or 5.5%, as compared to the prior year period. As a percentage of revenue, provider revenue cycle solutions adjusted EBITDA was 39.5% for the six months ended June 30, 2013 as compared to 40.8% for the six months ended June 30, 2012. The increase in provider revenue cycle solutions adjusted EBITDA was primarily due to the impact of the revenue items described above, partially offset by increased labor costs in our government program eligibility and enrollment services in advance of related revenues, the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment services and increased strategic growth initiative costs. The decrease as a percentage of revenue was primarily due to the increased labor costs and changing reimbursement patterns and rates in our government program eligibility and enrollment services and increased strategic growth initiative costs discussed above.

**Ambulatory Provider Services**

Our ambulatory provider services segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                                      | June 30,<br>2013  | June 30,<br>2012  | \$ Change      |
|--------------------------------------|-------------------|-------------------|----------------|
| <b>Revenue:</b>                      |                   |                   |                |
| Patient billing and payment services | \$ 127,146        | \$ 127,374        | \$ (228)       |
| Physician services                   | 37,252            | 36,899            | 353            |
| Dental                               | 16,411            | 16,200            | 211            |
|                                      | <b>\$ 180,809</b> | <b>\$ 180,473</b> | <b>\$ 336</b>  |
| <br>Adjusted EBITDA                  | <br>\$ 47,654     | <br>\$ 49,590     | <br>\$ (1,936) |

Patient billing and payment services revenue for the six months ended June 30, 2013 decreased by \$0.2 million, or 0.2%, as compared to the prior year period primarily due to customer attrition, partially offset by new sales and implementations and the impact of the United States postage rate increase effective in January 2013.



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Physician services revenue for the six months ended June 30, 2013 increased by \$0.4 million, or 1.0%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Dental revenues for the six months ended June 30, 2013 were generally consistent with those reflected in the prior year period.

Ambulatory provider services adjusted EBITDA for the six months ended June 30, 2013 decreased by \$1.9 million, or 3.9%, as compared to the prior year period. As a percentage of revenue, ambulatory provider services adjusted EBITDA was 26.4% for the six months ended June 30, 2013 as compared to 27.5% for the six months ended June 30, 2012. The decrease in ambulatory provider services adjusted EBITDA and as a percentage of revenue was primarily due to increased strategic growth initiative costs.

**Pharmacy Services**

Our pharmacy services revenue and adjusted EBITDA is summarized in the following table (in thousands):

|                      | June 30,<br>2013 | June 30,<br>2012 | \$ Change |
|----------------------|------------------|------------------|-----------|
| Revenue:             |                  |                  |           |
| Pharmacy services    | \$ 49,966        | \$ 46,506        | \$ 3,460  |
| Intersegment revenue | 179              | 180              | (1)       |
|                      | \$ 50,145        | \$ 46,686        | \$ 3,459  |
| Adjusted EBITDA      | \$ 23,716        | \$ 23,446        | \$ 270    |

Pharmacy services revenue for the six months ended June 30, 2013 increased by \$3.5 million, or 7.4%, as compared to the prior year period. Pharmacy services revenue for the six months ended June 30, 2013 included \$1.3 million related to the Goold acquisition. Excluding this revenue, pharmacy services revenue for the six months ended June 30, 2013 increased by \$2.1 million, or 4.6%, as compared to the prior year period. This increase was primarily due to new sales and implementations.

Pharmacy services adjusted EBITDA for the six months ended June 30, 2013 increased by \$0.3 million, or 1.2%, as compared to the prior year period. The increase in pharmacy services adjusted EBITDA is primarily due to the impact of the revenue items described above. As a percentage of revenue, pharmacy services adjusted EBITDA was 47.3% for the three months ended June 30, 2013 as compared to 50.2% for the three months ended June 30, 2012. The decrease as a percentage of revenue was primarily due to increased strategic growth initiative and channel partner costs, partially offset by the impact of the revenue items discussed above.

**Liquidity and Capital Resources****General**

We are a holding company with no material business operations. Our principal assets are the equity interests we own in our subsidiaries. We conduct all of our business operations through our direct and indirect subsidiaries. Accordingly, our only material sources of cash are borrowings under our Senior Credit Facilities and dividends or other distributions or payments that are derived from earnings and cash flow generated by our subsidiaries.

We anticipate cash generated by operations, the funds available under our Senior Credit Facilities, including our Revolving Facility, and existing cash and equivalents will be sufficient to meet working capital requirements, service our debt and finance capital expenditures. There can be no assurance, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our Senior Credit Facilities in amounts sufficient to enable us to repay our indebtedness, or to fund other liquidity needs.

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We and our subsidiaries, affiliates or significant stockholders may from time to time seek to retire or purchase our outstanding debt (including our senior notes) through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

### ***Cash Flows***

#### **Operating Activities**

Cash provided by operating activities for the six months ended June 30, 2013 was \$84.2 million as compared to \$54.4 million for six months ended June 30, 2012. The \$29.8 million increase is primarily due to business growth, the timing of and reduced interest payments under our Senior Credit Facilities and the timing of collections and disbursements.

Cash provided by operating activities can be significantly impacted by our non-cash working capital assets and liabilities, which may vary based on the timing of cash receipts that fluctuate by day of week and/or month and also may be impacted by cash management decisions.

#### **Investing Activities**

Cash used in investing activities for the six months ended June 30, 2013 was \$51.5 million as compared to \$86.4 million for the six months ended June 30, 2012. Cash used in investing activities for each of the six months ended June 30, 2013 and 2012 consisted of capital expenditures for property and equipment and cash consideration paid for acquisitions.

#### **Financing Activities**

Cash used in financing activities for the six months ended June 30, 2013 was \$11.5 million as compared to cash provided by financing activities of \$46.5 million for the six months ended June 30, 2012. Cash used in financing activities for the six months ended June 30, 2013 primarily consisted of principal payments under our Senior Credit Facilities and deferred financing arrangements. Cash provided by financing activities for the six months ended June 30, 2012 primarily consisted of net proceeds of additional term loans received in connection with the April 2012 amendment of our Senior Credit Agreement, partially offset by principal payments under our Senior Credit Facilities.

**Table of Contents****Long-term Debt**

In November 2011, we entered into the Senior Credit Agreement which was comprised of the Term Loan Facility, the Revolving Facility, \$375.0 million of 11% senior notes due 2019 (the 2019 Notes ) and \$375.0 million of 11.25% senior notes due 2020 (the 2020 Notes ; together with the 2019 Notes, the Senior Notes ).

Long-term debt as of June 30, 2013 and December 31, 2012, consisted of the following:

|   | June 30,<br>2013 | December 31,<br>2012 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| <i>Senior Credit Facilities</i>   |                  |                      |
| \$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$17,335 and \$32,426 at June 30, 2013 and December 31, 2012, respectively (effective interest rate of 4.21%) | \$ 1,267,376     | \$ 1,258,758         |
| \$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate  |                  |                      |
| <i>Senior Notes</i>   |                  |                      |
| \$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$8,097 and \$8,506 at June 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.53%)                     | 366,903          | 366,494              |
| \$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,989 and \$10,393 at June 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.86%)                 | 365,011          | 364,607              |
| <i>Obligation under data sublicense agreement</i>   | 26,863           | 26,863               |
| <i>Other</i>  | 13,685           | 287                  |
| Less current portion  | (22,094)         | (17,595)             |
| Long-term debt  | \$ 2,017,744     | \$ 1,999,414         |

**Senior Credit Facilities**

The Senior Credit Agreement provides that, subject to certain conditions, we may request additional tranches of term loans, increase commitments under the Revolving Facility or the Term Loan Facility or add one or more incremental revolving facility tranches (provided that the revolving credit commitments outstanding at any time have no more than three different maturity dates) in an aggregate amount not to exceed (a) \$300.0 million plus (b) an unlimited amount at any time, subject to compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00:1.00. Availability of such additional tranches of term loans or revolving facilities and/or increased commitments is subject to, among other conditions, the absence of any default under the Senior Credit Agreement and the receipt of commitments by existing or additional financial institutions. Proceeds of the Revolving Facility, including up to \$30.0 million in the form of borrowings on same-day notice, referred to as swingline loans, and up to \$50.0 million in the form of letters of credit, are available to provide financing for working capital and general corporate purposes.

Borrowings under the Senior Credit Facilities bear interest at an annual rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the highest of (i) the applicable prime rate, (ii) the federal funds rate plus 0.50% and (iii) a LIBOR rate determined by reference to the costs of funds for United States dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00%, which base rate, in the case of the Term Loan Facility only, shall be no less than 2.25% or (b) a LIBOR rate determined by reference to the costs of funds for United States dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, which, in the case of the Term Loan Facility only, shall be no less than 1.25%.

In April 2012, we amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80.0 million of additional term loans for general corporate purposes, including acquisitions. Following this amendment, the LIBOR-based interest rate on the Term Loan Facility was LIBOR plus 3.75%, compared to the previous interest rate of LIBOR plus 5.50%. The new LIBOR-based interest rate on the Revolving Facility was LIBOR plus 3.50% (with a potential step-down to LIBOR plus 3.25% based on our first lien net leverage ratio), compared to the previous interest rate of LIBOR plus 5.25% (with a potential step-down to LIBOR plus 5.00% based on our first lien net leverage ratio).



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In April 2013, the Company again amended the Senior Credit Agreement to further reprice, and also to modify certain financial covenants under, the Senior Credit Facilities. Following this amendment, the interest rate on the Term Loan Facility is LIBOR plus 2.50%, compared to the previous interest rate of LIBOR plus 3.75%. The new interest rate on the Revolving Facility is LIBOR plus 2.50%, compared to the previous interest rate of LIBOR plus 3.50% (or 3.25% based on a specified first lien net leverage ratio). The Term Loan Facility remains subject to a LIBOR floor of 1.25%, and there continues to be no LIBOR floor on the Revolving Facility. In connection with the April 2013 repricing, the Senior Credit Agreement also was amended to, among other things, eliminate the financial covenant in the Senior Credit Facilities related to the consolidated cash interest coverage ratio and modify the financial covenant related to the net leverage test by maintaining the required first lien net leverage ratio at its current level of 5.35 to 1.00 for the remaining term of the Senior Credit Facilities.

These amendments to the Senior Credit Agreement resulted in a loss on extinguishment of debt of \$23.2 million and \$21.9 million and other expenses related to fees paid to third parties of \$1.2 million and \$3.6 million, for the three and six months ended June 30, 2013 and 2012, respectively, which have been reflected within sales, marketing, general and administrative expense in the accompanying consolidated statements of operations.

In addition to paying interest on outstanding principal under the Senior Credit Facilities, we are required to pay customary agency fees, letter of credit fees and a 0.50% commitment fee in respect of the unutilized commitments under the Revolving Facility.

The Senior Credit Agreement requires that we prepay outstanding loans under the Term Loan Facility, subject to certain exceptions, with (a) 100% of the net cash proceeds of any incurrence of debt other than debt permitted under the Senior Credit Agreement, (b) commencing with the fiscal year ended December 31, 2012, 50% (which percentage will be reduced to 25% and 0% based on our first lien net leverage ratio) of our annual excess cash flow and (c) 100% of the net cash proceeds of certain asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions.

We generally may voluntarily prepay outstanding loans under the Senior Credit Facilities at any time without premium or penalty other than breakage costs with respect to LIBOR loans; provided, however, the Company may be subject to a prepayment premium of 1.00% of the aggregate principal amount of the loans so prepaid based on the timing of certain repricing transactions.

We are required to make quarterly payments equal to 0.25% of the aggregate principal amount of the loans under the Term Loan Facility, with the balance due and payable on November 2, 2018. Any principal amount outstanding under the Revolving Facility is due and payable on November 2, 2016.

Certain of our United States wholly-owned restricted subsidiaries, together with the Company, are co-borrowers and jointly and severally liable for all obligations under the Senior Credit Facilities. Such obligations of the co-borrowers are unconditionally guaranteed by Beagle Intermediate Holdings, Inc., a direct wholly-owned subsidiary of Parent, the Company and each of our existing and future United States wholly-owned restricted subsidiaries (with certain exceptions including immaterial subsidiaries). These obligations are secured by a perfected security interest in substantially all of the assets of the co-borrowers and guarantors now owned or later acquired, including a pledge of all of the capital stock of the Company and our United States wholly-owned restricted subsidiaries and 65% of the capital stock of our foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.



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During the three months June 30, 2013, the Senior Credit Agreement required us to comply with a maximum first lien net leverage ratio financial maintenance covenant, to be tested on the last day of each fiscal quarter. A breach of the first lien net leverage ratio covenant is subject to certain equity cure rights. In addition, the Senior Credit Facilities contain a number of negative covenants that, among other things and subject to certain exceptions, restrict our ability and the ability of our subsidiaries to:

incur additional indebtedness or guarantees;

incur liens;

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of subsidiaries;

pay dividends on capital stock or redeem, repurchase or retire capital stock of the Company or any restricted subsidiary;

alter the business of the Company;

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with affiliates; and

enter into agreements limiting dividends and distributions of certain subsidiaries.

The Senior Credit Agreement also contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default (including upon change of control).

### ***Senior Notes***

The 2019 Notes bear interest at an annual rate of 11% with interest payable semi-annually on June 30 and December 31 of each year. The 2019 Notes mature on December 31, 2019. The 2020 Notes bear interest at an annual rate of 11.25% with interest payable quarterly on March 31, June 30, September 30 and December 31 of each year. The 2020 Notes mature on December 31, 2020.

We may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at any time on or after December 31, 2015 at the applicable redemption price, plus accrued and unpaid interest. In addition, at any time prior to December 31, 2014, we may, at our option and on one or more occasions, redeem up to 35% of the aggregate principal amount of the 2019 Notes or the 2020 Notes, at a redemption price equal to 100% of the aggregate principal amount, plus a premium equal to the stated interest rate on the 2019 Notes or the 2020 Notes, respectively, plus accrued and unpaid interest with the net cash proceeds of certain equity offerings; provided that at least 50% of the sum of the aggregate principal amount of the 2019 Notes or 2020 Notes, respectively, originally issued (including any additional notes) remain outstanding immediately after such redemption and the redemption occurs within 180 days of the equity offering. At any time prior to December 31, 2015, we may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at our option and on one or more occasions, at a redemption price equal to 100% of the principal amount, plus an applicable premium and accrued and unpaid interest. If we experience specific kinds of changes

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in control, we must offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. Our obligations under the Senior Notes are guaranteed on a senior basis by all of our existing and subsequently acquired or organized wholly-owned United States restricted subsidiaries that guarantee our Senior Credit Facilities or our other indebtedness or indebtedness of any affiliate guarantor. The Senior Notes and the related guarantees are effectively subordinated to our existing and future secured obligations and that of our affiliate guarantors to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all existing and future indebtedness and other liabilities of any of our subsidiaries that do not guarantee the Senior Notes.

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The indentures governing the Senior Notes (the "Indentures") contain covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to:

pay dividends on our capital stock or redeem, repurchase or retire our capital stock;

incur additional indebtedness or issue certain capital stock;

incur certain liens;

make investments, loans, advances and acquisitions;

consolidate, merge or transfer of all or substantially all or substantially all of our assets and the assets of our subsidiaries;

prepay subordinated debt;

engage in certain transactions with our affiliates; and

enter into agreements restricting our restricted subsidiaries' ability to pay dividends.

The Indentures also contain certain affirmative covenants and events of default.

## **Off-Balance Sheet Arrangements**

As of the filing of this Quarterly Report, we had no off-balance sheet arrangements or obligations, other than those related to surety bonds of an insignificant amount.

## **Recent Accounting Pronouncements**

Our recent accounting pronouncements are summarized in Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

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

We have interest rate risk primarily related to borrowings under the Senior Credit Agreement. Borrowings under the Senior Credit Facilities bear interest at an annual rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the highest of (i) the applicable prime rate, (ii) the federal funds rate plus 0.50% and (iii) a LIBOR rate determined by reference to the costs of funds for United States dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00%, which base rate, in the case of the Term Loan Facility only, shall be no less than 2.25% or (b) a LIBOR rate determined by reference to the costs of funds for United States dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, which, in the case of the Term Loan Facility only, shall be no less than 1.25%.

As of June 30, 2013, we had outstanding borrowings of \$1,284.7 million under the Senior Credit Agreement. As of June 30, 2013, the LIBOR-based interest rate on the Term Loan Facility was LIBOR plus 2.50% and the LIBOR-based interest rate on the Revolving Facility was LIBOR plus 2.50%. The Term Loan Facility is subject to a LIBOR floor of 1.25% and there is no LIBOR floor on the Revolving Facility.

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We manage economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into interest rate swap agreements to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our interest rate swap agreements are used to manage differences in the amount, timing and duration of our known or expected cash receipts and our known or expected cash payments principally related to our borrowings.

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In January 2012, we executed three interest rate swap agreements with an aggregate notional amount of \$640 million to reduce the variability of interest payments associated with the Term Loan Facility. For the quarter ended June 30, 2013, our interest rate swap agreements were designated as a cash flow hedge so that changes in the fair market value of the interest rate swap agreements were included within other comprehensive income.

A change in interest rates on variable rate debt may impact our pretax earnings and cash flows. However, due to a floor on the floating rate index of 1.25% under the Term Loan Facility, as of June 30, 2013, our interest rates must increase by more than 97 basis points before our interest expense or cash flows are affected. Based on our outstanding debt as of June 30, 2013, and assuming that our mix of debt instruments, interest rate swaps and other variables remain the same, the annualized effect of a one percentage point change in variable interest rates would have an annualized pretax impact on our earnings and cash flows of approximately \$0.2 million.

In the future, in order to manage our interest rate risk, we may refinance our existing debt, enter into additional interest rate swap agreements, modify our existing interest rate swap agreements or make changes that may impact our ability to treat our interest rate swaps as a cash flow hedge. However, we do not intend or expect to enter into derivative or interest rate swap transactions for speculative purposes.

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

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2013. Based upon that evaluation, our CEO and CFO concluded that, as of June 30, 2013, our disclosure controls and procedures were effective in causing material information relating to us (including our consolidated subsidiaries) to be recorded, processed, summarized and reported by management on a timely basis and to ensure the quality and timeliness of our public disclosures with SEC disclosure obligations.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes to our internal control over financial reporting that occurred during the three months ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

In the normal course of business, the Company is subject to claims, lawsuits and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, in management's opinion, the liabilities, if any, in excess of amounts provided or covered by insurance, are not expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

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**ITEM 1A. RISK FACTORS**

The discussion of the Company's business and operations should be read together with the risk factors contained under the heading "Risk Factors" in our Form 10-K, which describes various risks and uncertainties to which we are or may be subject. These risks and uncertainties have the potential to affect our business, financial condition and results of operations, cash flows and prospects in a material adverse manner. As of the date hereof, there have been no material changes to the risk factors set forth in our Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The exhibits listed on the accompanying Exhibit Index are filed, furnished or incorporated by reference (as stated therein) as part of this Quarterly Report.

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**SIGNATURES**

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

EMDEON INC.

Date: August 12, 2013

By: /s/ George I. Lazenby  
George I. Lazenby, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 12, 2013

By: /s/ Bob A. Newport  
Bob A. Newport, Jr., Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**Exhibit Index**

| Exhibit |   |
|---------|---|
| No.     |   |
| 10.1    | Amendment No. 2 to the Credit Agreement, dated as of April 25, 2013, among Emdeon Inc., the other borrowers party thereto, Bank of America, N.A., as administrative agent, swingline lender, letter of credit issuer and collateral agent thereunder, and the lenders, guarantors and agents party thereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 25, 2013, and incorporated herein by reference). |
| 31.1    | Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 31.2    | Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 32.1    | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).   |
| 32.2    | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).   |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Scheme Document   |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document  |