

Emdeon Inc.  
Form 10-Q  
November 08, 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 September 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 November 8, 2013
Common Stock, \$0.01 par value	100

\* 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>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 61,563	\$ 31,763
Accounts receivable, net of allowance for doubtful accounts of \$4,624 and \$3,585 at September 30, 2013 and December 31, 2012, respectively	209,039	190,021
Deferred income tax assets	5,578	4,184
Prepaid expenses and other current assets	29,339	28,160
<b>Total current assets</b>	<b>305,519</b>	<b>254,128</b>
Property and equipment, net	279,195	264,852
Goodwill	1,502,361	1,488,134
Intangible assets, net	1,658,049	1,730,089
Other assets, net	19,538	29,694
<b>Total assets</b>	<b>\$ 3,764,662</b>	<b>\$ 3,766,897</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,495	\$ 6,223
Accrued expenses	118,414	101,805
Deferred revenues	10,222	9,342
Current portion of long-term debt	22,031	17,595
<b>Total current liabilities</b>	<b>159,162</b>	<b>134,965</b>
Long-term debt, excluding current portion	2,015,743	1,999,414
Deferred income tax liabilities	447,217	466,921
Tax receivable agreement obligations to related parties	143,697	125,003
Other long-term liabilities	16,847	8,443
Commitments and contingencies		
Equity:		
Common stock (par value, \$.01), 100 shares authorized and outstanding at September 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital	1,136,355	1,130,968
Accumulated other comprehensive income (loss)	(1,343)	(3,789)
Accumulated deficit	(153,016)	(95,028)
<b>Total equity</b>	<b>981,996</b>	<b>1,032,151</b>
<b>Total liabilities and equity</b>	<b>\$ 3,764,662</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)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenue	\$ 323,906	\$ 297,075	\$ 941,093	\$ 877,577
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)	197,378	181,818	580,501	534,463
Development and engineering	7,896	8,644	23,263	26,320
Sales, marketing, general and administrative	44,524	37,634	126,580	113,395
Depreciation and amortization	47,181	48,572	137,943	140,354
Accretion	7,112	2,758	18,712	15,104
Operating income	19,815	17,649	54,094	47,941
Interest expense, net	37,000	41,898	116,390	130,539
Loss on extinguishment of debt			23,160	21,853
Other	(1,046)		(1,046)	
Income (loss) before income tax provision (benefit)	(16,139)	(24,249)	(84,410)	(104,451)
Income tax provision (benefit)	126	(9,093)	(26,422)	(36,364)
Net income (loss)	\$ (16,265)	\$ (15,156)	\$ (57,988)	\$ (68,087)

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 Ended September 30, 2013</b>	<b>Three Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2012</b>
Net income (loss)	\$ (16,265)	\$ (15,156)	\$ (57,988)	\$ (68,087)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(1,064)	(1,487)	2,511	(3,821)
Foreign currency translation adjustment	35	(126)	(65)	107
Other comprehensive income (loss)	(1,029)	(1,613)	2,446	(3,714)
Total comprehensive income (loss)	\$ (17,294)	\$ (16,769)	\$ (55,542)	\$ (71,801)

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		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in Capital	Earnings (Deficit)	Other Comprehensive Income (Loss)	
<b>Balance at January 1, 2012</b>	100	\$	\$ 1,120,676	\$ (16,693)	\$ (194)	\$ 1,103,789
Equity compensation expense			3,969			3,969
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				(68,087)		(68,087)
Foreign currency translation adjustment					107	107
Change in fair value of interest rate swap, net of taxes					(3,821)	(3,821)
<b>Balance at September 30, 2012</b>	100	\$	\$ 1,128,320	\$ (84,780)	\$ (3,908)	\$ 1,039,632
<b>Balance at January 1, 2013</b>	100	\$	\$ 1,130,968	\$ (95,028)	\$ (3,789)	\$ 1,032,151
Equity compensation expense			5,637			5,637
Repurchase of Parent common stock			(250)			(250)
Net loss				(57,988)		(57,988)
Foreign currency translation adjustment					(65)	(65)
Change in fair value of interest rate swap, net of taxes					2,511	2,511
<b>Balance at September 30, 2013</b>	100	\$	\$ 1,136,355	\$ (153,016)	\$ (1,343)	\$ 981,996

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)**

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
<b>Operating activities</b>		
Net income (loss)	\$ (57,988)	\$ (68,087)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	137,943	140,354
Accretion	18,712	15,104
Equity compensation	5,637	3,969
Deferred income tax expense (benefit)	(27,884)	(37,369)
Amortization of debt discount and issuance costs	6,585	7,613
Change in contingent consideration	1,879	
Gain on sale of cost method investment	(2,925)	
Loss on extinguishment of debt	22,828	18,293
Other	1,068	1,927
Changes in operating assets and liabilities:		
Accounts receivable	(15,582)	(5,547)
Prepaid expenses and other	(1,804)	(3,686)
Accounts payable	685	5,153
Accrued expenses, deferred revenue and other liabilities	20,985	(8,444)
Tax receivable agreement obligations to related parties	(103)	(114)
Net cash provided by (used in) operating activities	110,036	69,166
<b>Investing activities</b>		
Purchases of property and equipment	(52,806)	(40,949)
Payments for acquisitions, net of cash acquired	(18,291)	(59,011)
Proceeds from sale of cost method investment	5,820	
Net cash provided by (used in) investing activities	(65,277)	(99,960)
<b>Financing activities</b>		
Proceeds from Term Loan Facility		70,351
Debt principal payments	(9,692)	(9,565)
Payments on Revolving Facility		(15,000)
Payment of loan costs	(2,178)	(2,060)
Repayment of deferred financing arrangements	(2,103)	
Repurchase of Parent common stock	(250)	(317)
Other	(736)	(203)
Net cash provided by (used in) financing activities	(14,959)	43,206
Net increase (decrease) in cash and cash equivalents	29,800	12,412
Cash and cash equivalents at beginning of period	31,763	37,925
Cash and cash equivalents at end of period	\$ 61,563	\$ 50,337

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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	5,495	
Other	(5)	383
	<b>\$ 24,881</b>	<b>\$ 61,734</b>
<b>Allocation of the Consideration Transferred:</b>		
Cash	\$ 1,100	\$ 2,340
Accounts receivable	3,435	2,662
Deferred income tax assets		348
Prepaid expenses and other current assets	647	155
Property and equipment	7,655	10,414
Identifiable intangible assets:		
Tradename		530
Noncompetition agreements	490	1,300
Customer relationships	5,170	18,810
Backlog	440	
Goodwill	14,227	38,634
Accounts payable	(541)	
Accrued expenses	(2,156)	(4,783)
Deferred revenues	(101)	
Current maturities of long-term debt	(218)	

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Deferred income tax liabilities	(5,267)	(8,592)
Other long-term liabilities		(84)
Total consideration transferred	\$ 24,881	\$ 61,734

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

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

	Goold	TC3
<b>Acquisition costs in sales, marketing, general and administrative expense:</b>		
For the three months ended September 30, 2013	\$ 18	\$
For the three months ended September 30, 2012	\$	\$
For the nine months ended September 30, 2013	\$ 280	\$
For the nine months ended September 30, 2012	\$	\$ 513
<b>Other Information:</b>		
Gross contractual accounts receivable	\$ 3,435	\$ 2,943
Amount not expected to be collected	\$	\$ 281
Goodwill expected to be deductible for tax purposes	\$	\$
<b>Contingent Consideration Information:</b>		
Contingent consideration range	\$0-15,000	N/A
Measurement period	July 1, 2013 to September 30, 2014	N/A
Type of measurement	Level 3	N/A
<i>Key assumptions at the acquisition date:</i>		
Probability of winning new contracts	10%-50%	N/A
Probability of retaining contracts that expire during the measurement period	90%	N/A
Range of baseline revenue retention for existing customers	75%-125%	N/A
Expected payment date	12/15/2014	N/A
Discount rate	15.4%	N/A
<i>Increase (decrease) to net income:</i>		
For the three months ended September 30, 2013	\$ 1,879	\$
For the nine months ended September 30, 2013	\$ 1,879	\$

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.

Goodwill is generally deductible for federal income tax purposes when a business combination is treated as an asset purchase. Goodwill is generally not deductible for federal income tax purposes when the business combination is treated as a stock purchase.

**5. Goodwill and Intangible Assets**

Goodwill activity during the nine months ended September 30, 2013 was as follows:

	Payer	Ambulatory Provider	Provider Revenue Cycle Solutions	Pharmacy	Total
Balance at December 31, 2012	\$ 712,585	\$ 289,812	\$ 315,054	\$ 170,683	\$ 1,488,134
Acquisitions				14,227	14,227

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Balance at September 30, 2013	\$ 712,585	\$ 289,812	\$ 315,054	\$ 184,910	\$ 1,502,361
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**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

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

	<b>Weighted Average Remaining Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Customer relationships	17.6	\$ 1,646,980	\$ (159,879)	\$ 1,487,101
Trade names	17.7	156,530	(15,200)	141,330
Non-compete agreements	2.9	13,290	(5,047)	8,243
Data sublicense agreement	4.0	31,000	(10,038)	20,962
Backlog	3.8	440	(27)	413
Total		\$ 1,848,240	\$ (190,191)	\$ 1,658,049

Amortization expense was \$78,140 and \$84,753 for the nine months ended September 30, 2013 and 2012, respectively.

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

2013 (remainder)	\$ 25,140
2014	100,560
2015	100,154
2016	99,567
2017	96,300
Thereafter	1,236,328
	\$ 1,658,049

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****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 September 30, 2013 and December 31, 2012, consisted of the following:

	September 30, 2013	December 31, 2012
<i>Senior Credit Facilities</i>		
\$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$16,583 and \$32,426 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 4.21%)	\$ 1,264,908	\$ 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 \$7,883 and \$8,506 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.53%)	367,117	366,494
\$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,778 and \$10,393 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.86%)	365,222	364,607
<i>Obligation under data sublicense agreement</i>	26,863	26,863
<i>Other</i>	13,664	287
Less current portion	(22,031)	(17,595)
Long-term debt	\$ 2,015,743	\$ 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 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 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%.



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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

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 nine months ended September 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.

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.

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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

The Senior Credit Agreement requires 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

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. 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.

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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 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.

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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

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 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 September 30, 2013). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

***Other***

During the nine months ended September 30, 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 \$14,204 at September 30, 2013.

**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.



**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)*****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 nine months ended September 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 September 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 \$2,575 will be reclassified as an increase to interest expense.

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

	Balance Sheet Location	Fair Values of Derivative Instruments	
		September 30, 2013	December 31, 2012
<b>Derivatives designated as hedging instruments:</b>			
Interest rate swaps	Other assets	\$ 785	\$
Interest rate swaps	Accrued expenses	(2,575)	(2,563)
Interest rate swaps	Other long-term liabilities		(3,258)
		\$ (1,790)	\$ (5,821)

***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 nine months ended September 30, 2013 and 2012, respectively, is summarized in the following table:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
<b>Derivatives in Cash Flow Hedging Relationships</b>				
Gain (loss) related to effective portion of derivative recognized in other comprehensive loss	\$ (2,305)	\$ 3,012	\$ 2,096	\$ 7,795
Loss related to effective portion of derivative reclassified from accumulated other comprehensive	\$ (652)	\$ (652)	\$ (1,935)	\$ (1,722)

loss to interest expense

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)*****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 September 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 \$2,548. If the Company had breached any of these provisions at September 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 September 30, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

<b>Description</b>	<b>Balance at September 30, 2013</b>	<b>Quoted in Markets Identical (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Interest rate swaps	\$ (1,790)	\$	\$ (1,790)	\$
Contingent consideration obligations	(7,438)			(7,438)
<b>Total</b>	<b>\$ (9,228)</b>	<b>\$</b>	<b>\$ (1,790)</b>	<b>\$ (7,438)</b>

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 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 nine months ended September 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.

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

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 September 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 estimated as the present value of total expected contingent consideration payments which are determined using a Monte Carlo simulation. This analysis reflects the contractual terms of the purchase agreement and utilizes assumptions with regard to future sales, probabilities of achieving such future sales, the timing of expected payments 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)**

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Balance at beginning of period	\$ (5,887)	\$ (402)	\$ (296)	\$ (501)
Adjustment of provisional amounts	223			
Issuance of contingent consideration			(5,495)	
Settlement of contingent consideration	105	58	232	157
Total changes included in other income	(1,879)		(1,879)	
Balance at end of period	\$ (7,438)	\$ (344)	\$ (7,438)	\$ (344)

**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 September 30, 2013 were:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 61,563	\$ 61,563
Accounts receivable	\$ 209,039	\$ 209,039
Senior Credit Facilities (Level 1)	\$ 1,264,908	\$ 1,279,889
Senior Notes (Level 2)	\$ 732,339	\$ 861,098

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.

During the three months ended September 30, 2013, the Company sold its equity interest in a cost method investment which resulted in a gain of \$2,925 as reflected in other in the accompanying condensed consolidated statements of operations.



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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

**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 nine months ended September 30, 2013 and September 30, 2012 amounted to an income tax benefit of \$26,422 and \$36,364, respectively. The Company's effective tax rate was 31.3% for the nine months ended September 30, 2013 compared to 34.8% 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, changes in apportionment and other factors. In addition, during the nine months ended September 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 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 \$361,425. \$144,751 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 September 30, 2013. The accompanying unaudited condensed consolidated statement of operations for the nine months ended September 30, 2013 and 2012 includes accretion expense of \$18,712 and \$15,104, respectively, related to this obligation.

During the nine months ended September 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 a change in the Company's effective tax rate, 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 \$6,105 for the nine months ended September 30, 2013.

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**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

**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. Additionally, the Company periodically makes other changes to the composition of its operating segments. Prior period segment information is restated to reflect the organizational structure and any other changes made.

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 revenue optimization 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.

***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.





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

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

	Three Months Ended September 30, 2013					Consolidated
	Payer	Ambulatory Provider	Provider Revenue Cycle Solutions	Pharmacy	Corporate and Eliminations	
Revenue from external customers:						
Claims management	\$ 77,092	\$	\$	\$	\$	\$ 77,092
Payment distribution services	64,245					64,245
Patient billing and payment services		63,264				63,264
Physician services		19,467				19,467
Dental		8,080				8,080
Revenue cycle technology			30,222			30,222
Revenue cycle services			31,172			31,172
Pharmacy				30,364		30,364
Inter-segment revenue	1,272		353	77	(1,702)	
Net revenue	\$ 142,609	\$ 90,811	\$ 61,747	\$ 30,441	\$ (1,702)	\$ 323,906
Income (loss) before income taxes						\$ (16,139)
Interest expense						37,000
Depreciation and amortization						47,181
EBITDA						68,042
Equity compensation						2,089
Acquisition accounting adjustments						251
Acquisition-related costs						1,198
Transaction-related costs and advisory fees						1,500
Strategic initiatives, duplicative and transition costs						1,888
Severance and retention costs						3,507
Accretion expense						7,112
(Gain) loss on disposal of assets						(2,900)
Contingent consideration						1,879
Other						682
EBITDA Adjustments						17,206
Adjusted EBITDA	\$ 59,145	\$ 23,443	\$ 25,282	\$ 13,179	\$ (35,801)	\$ 85,248
Capital Expenditures	\$ 2,993	\$ 2,473	\$ 2,828	\$ 649	\$ 10,617	\$ 19,560

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

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

	Three Months Ended September 30, 2012					
	Payer	Ambulatory Provider	Provider Cycle Solutions	Pharmacy	Corporate and Eliminations	Consolidated
Revenue from external customers:						
Claims management	\$ 64,557	\$	\$	\$	\$	\$ 64,557
Payment distribution services	63,330					63,330
Patient billing and payment services		63,817				63,817
Physician services		18,279				18,279
Dental		7,828				7,828
Revenue cycle technology			27,096			27,096
Revenue cycle services			28,665			28,665
Pharmacy				23,503		23,503
Inter-segment revenue	1,211		205	90	(1,506)	
<b>Net revenue</b>	<b>\$ 129,098</b>	<b>\$ 89,924</b>	<b>\$ 55,966</b>	<b>\$ 23,593</b>	<b>\$ (1,506)</b>	<b>\$ 297,075</b>
Income (loss) before income taxes						\$ (24,249)
Interest expense						41,898
Depreciation and amortization						48,572
<b>EBITDA</b>						<b>66,221</b>
Equity compensation						3,969
Acquisition accounting adjustments						937
Acquisition-related costs						609
Transaction-related costs and advisory fees						2,237
Strategic initiatives, duplicative and transition costs						2,059
Severance and retention costs						163
Accretion expense						2,758
Other						227
<b>EBITDA Adjustments</b>						<b>12,959</b>
<b>Adjusted EBITDA</b>	<b>\$ 49,973</b>	<b>\$ 24,471</b>	<b>\$ 26,399</b>	<b>\$ 11,823</b>	<b>\$ (33,486)</b>	<b>\$ 79,180</b>
Capital Expenditures	\$ 2,953	\$ 1,081	\$ 2,299	\$ 1,715	\$ 5,471	\$ 13,519

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

	Nine Months Ended September 30, 2013					
	Payer	Ambulatory Provider	Provider Revenue Cycle Solutions	Pharmacy	Corporate and Eliminations	Consolidated
Revenue from external customers:						
Claims management	\$ 212,242	\$	\$	\$	\$	\$ 212,242
Payment distribution services	195,129					195,129
Patient billing and payment services		190,410				190,410
Physician services		56,719				56,719
Dental		24,491				24,491
Revenue cycle technology			89,499			89,499
Revenue cycle services			92,273			92,273
Pharmacy				80,330		80,330
Inter-segment revenue	3,385		1,014	256	(4,655)	
<b>Net revenue</b>	<b>\$ 410,756</b>	<b>\$ 271,620</b>	<b>\$ 182,786</b>	<b>\$ 80,586</b>	<b>\$ (4,655)</b>	<b>\$ 941,093</b>
Income (loss) before income taxes						\$ (84,410)
Interest expense						116,390
Depreciation and amortization						137,943
<b>EBITDA</b>						<b>169,923</b>
Equity compensation						5,637
Acquisition accounting adjustments						741
Acquisition-related costs						2,457
Transaction-related costs and advisory fees						4,825
Strategic initiatives, duplicative and transition costs						4,355
Severance and retention costs						5,136
Loss on extinguishment of debt and other related costs						24,311
Accretion expense						18,712
(Gain) loss on disposal of assets						(997)
Contingent consideration						1,879
Other						1,460
<b>EBITDA Adjustments</b>						<b>68,516</b>
<b>Adjusted EBITDA</b>	<b>\$ 164,790</b>	<b>\$ 71,097</b>	<b>\$ 74,703</b>	<b>\$ 37,166</b>	<b>\$ (109,317)</b>	<b>\$ 238,439</b>
<b>Capital Expenditures</b>	<b>\$ 9,825</b>	<b>\$ 6,097</b>	<b>\$ 8,611</b>	<b>\$ 2,826</b>	<b>\$ 25,447</b>	<b>\$ 52,806</b>

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

	Nine Months Ended September 30, 2012					
	Payer	Ambulatory Provider	Provider Revenue Cycle Solutions	Pharmacy	Corporate and Eliminations	Consolidated
Revenue from external customers:						
Claims management	\$ 179,519	\$	\$	\$	\$	\$ 179,519
Payment distribution services	191,125					191,125
Patient billing and payment services		191,191				191,191
Physician services		55,178				55,178
Dental		24,028				24,028
Revenue cycle technology			80,495			80,495
Revenue cycle services			86,034			86,034
Pharmacy				70,007		70,007
Inter-segment revenue	3,117		643	270	(4,030)	
<b>Net revenue</b>	<b>\$ 373,761</b>	<b>\$ 270,397</b>	<b>\$ 167,172</b>	<b>\$ 70,277</b>	<b>\$ (4,030)</b>	<b>\$ 877,577</b>
Income (loss) before income taxes						\$ (104,451)
Interest expense						130,539
Depreciation and amortization						140,354
<b>EBITDA</b>						<b>166,442</b>
Equity compensation						3,969
Acquisition accounting adjustments						4,369
Acquisition-related costs						4,264
Transaction-related costs and advisory fees						6,899
Strategic initiatives, duplicative and transition costs						8,302
Severance and retention costs						1,080
Loss on extinguishment of debt and other related costs						25,411
Accretion expense						15,104
Disposal of assets						52
Other						1,828
<b>EBITDA Adjustments</b>						<b>71,278</b>
<b>Adjusted EBITDA</b>	<b>\$ 149,895</b>	<b>\$ 74,061</b>	<b>\$ 78,277</b>	<b>\$ 35,406</b>	<b>\$ (99,919)</b>	<b>\$ 237,720</b>
Capital Expenditures	\$ 7,922	\$ 3,926	\$ 6,201	\$ 3,129	\$ 19,771	\$ 40,949

**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 nine months ended September 30, 2013.

	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2013	\$ (127)	\$ (3,662)	\$ (3,789)
Change associated with foreign currency translation	(65)		(65)
Change associated with current period hedging		576	576
Reclassification into earnings		1,935	1,935
Balance at September 30, 2013	\$ (192)	\$ (1,151)	\$ (1,343)

**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 September 30, 2013 and December 31, 2012, condensed consolidating statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012, respectively, and condensed consolidating cash flows for the nine months ended September 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.

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

**Condensed Consolidating Balance Sheet**

	Emdeon Inc.	As of September 30, 2013		Consolidated
		Guarantor Subsidiaries	Consolidating Adjustments	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 722	\$ 60,841	\$	\$ 61,563
Accounts receivable, net of allowance for doubtful accounts		209,039		209,039
Deferred income tax assets		5,578		5,578
Prepaid expenses and other current assets	2,948	26,391		29,339
<b>Total current assets</b>	<b>3,670</b>	<b>301,849</b>		<b>305,519</b>
Property and equipment, net		279,195		279,195
Due from affiliates		64,856	(64,856)	
Investment in consolidated subsidiaries	1,795,024		(1,795,024)	
Goodwill		1,502,361		1,502,361
Intangible assets, net	144,750	1,513,299		1,658,049
Other assets, net	50,853	14,750	(46,065)	19,538
<b>Total assets</b>	<b>\$ 1,994,297</b>	<b>\$ 3,676,310</b>	<b>\$ (1,905,945)</b>	<b>\$ 3,764,662</b>
<b>LIABILITIES AND EQUITY</b>				
Current liabilities:				
Accounts payable	\$	\$ 8,495	\$	\$ 8,495
Accrued expenses	18,769	99,645		118,414
Deferred revenues		10,222		10,222
Current portion of long-term debt	4,597	17,434		22,031
<b>Total current liabilities</b>	<b>23,366</b>	<b>135,796</b>		<b>159,162</b>
Due to affiliates	64,856			