

Emdeon Inc.  
Form 10-Q  
May 13, 2014  
Table of Contents

**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 March 31, 2014

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):

## Edgar Filing: Emdeon Inc. - Form 10-Q

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 May 13, 2014 |
|--------------------------------|--------------------------------|
| 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.

**Table of Contents**

**Emdeon Inc.**

**Table of Contents**

|  |    |
|--|----|
| <u>Part I. Financial Information</u>   |    |
| <u>Item 1. Financial Statements</u>  | 3  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 34 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 48 |
| <u>Item 4. Controls and Procedures</u>   | 49 |
| <u>Part II. Other Information</u>  |    |
| <u>Item 1. Legal Proceedings</u>   | 49 |
| <u>Item 1A. Risk Factors</u>   | 49 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 50 |
| <u>Item 3. Defaults Upon Senior Securities</u>   | 50 |
| <u>Item 4. Mine Safety Disclosures</u>   | 50 |
| <u>Item 5. Other Information</u>   | 50 |
| <u>Item 6. Exhibits</u>  | 50 |
| <u>Signatures</u>  | 51 |
| <u>Exhibit Index</u>   | 52 |

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

3

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

|  | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>  |                           |                              |
| Current assets:  |                           |                              |
| Cash and cash equivalents  | \$ 76,899                 | \$ 76,538                    |
| Accounts receivable, net of allowance for doubtful accounts of \$4,011 and \$3,856 at March 31, 2014 and December 31, 2013, respectively | 215,198                   | 214,247                      |
| Deferred income tax assets   | 14,371                    | 6,317                        |
| Prepaid expenses and other current assets  | 29,635                    | 27,019                       |
| <b>Total current assets</b>  | <b>336,103</b>            | <b>324,121</b>               |
| Property and equipment, net  | 254,494                   | 269,470                      |
| Goodwill   | 1,508,759                 | 1,502,434                    |
| Intangible assets, net   | 1,610,658                 | 1,632,688                    |
| Other assets, net  | 19,855                    | 19,169                       |
| <b>Total assets</b>  | <b>\$ 3,729,869</b>       | <b>\$ 3,747,882</b>          |
| <b>LIABILITIES AND EQUITY</b>  |                           |                              |
| Current liabilities:   |                           |                              |
| Accounts payable   | \$ 6,889                  | \$ 8,367                     |
| Accrued expenses   | 135,578                   | 131,149                      |
| Deferred revenues  | 10,416                    | 10,881                       |
| Current portion of long-term debt  | 18,972                    | 31,330                       |
| <b>Total current liabilities</b>   | <b>171,855</b>            | <b>181,727</b>               |
| Long-term debt, excluding current portion  | 2,001,956                 | 1,999,026                    |
| Deferred income tax liabilities  | 422,659                   | 436,263                      |
| Tax receivable agreement obligations to related parties  | 150,419                   | 150,496                      |
| Other long-term liabilities  | 13,751                    | 11,824                       |
| Commitments and contingencies  |                           |                              |
| Equity:  |                           |                              |
| Common stock (par value, \$.01), 100 shares authorized and outstanding at March 31, 2014 and December 31, 2013, respectively             |                           |                              |
| Additional paid-in capital   | 1,143,244                 | 1,139,375                    |
| Accumulated other comprehensive income (loss)  | (1,540)                   | (1,343)                      |
| Accumulated deficit  | (172,475)                 | (169,486)                    |
| <b>Total equity</b>  | <b>969,229</b>            | <b>968,546</b>               |
| <b>Total liabilities and equity</b>  | <b>\$ 3,729,869</b>       | <b>\$ 3,747,882</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 March<br/>31,<br/>2014</b> | <b>Three Months<br/>Ended March<br/>31,<br/>2013</b> |
|---|--|--|
| Revenue   | \$ 319,207   | \$ 299,359   |
| Costs and expenses:   |  |  |
| Cost of operations (exclusive of depreciation and amortization below) | 194,133  | 183,424  |
| Development and engineering   | 9,236  | 7,698  |
| Sales, marketing, general and administrative                          | 55,184   | 38,675   |
| Depreciation and amortization   | 46,463   | 46,815   |
| Accretion   | (77)   | 4,140  |
| Operating income  | 14,268   | 18,607   |
| Interest expense, net   | 36,563   | 41,415   |
| Contingent consideration  | 1,960  |  |
| Income (loss) before income tax provision (benefit)                   | (24,255)   | (22,808)   |
| Income tax provision (benefit)  | (21,266)   | (9,357)  |
| Net income (loss)   | \$ (2,989)   | \$ (13,451)  |

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 March<br/>31,<br/>2014</b> | <b>Three Months<br/>Ended March<br/>31,<br/>2013</b> |
|---|--|--|
| Net income (loss)   | \$ (2,989)   | \$ (13,451)  |
| Other comprehensive income (loss):                        |  |  |
| Changes in fair value of interest rate swap, net of taxes | (124)  | 428  |
| Foreign currency translation adjustment                   | (73)   | (35)   |
| Other comprehensive income (loss):                        | (197)  | 393  |
| Total comprehensive income (loss)                         | \$ (3,186)   | \$ (13,058)  |

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      | Earnings     | Other                             |              |
|  |              |        | Capital      | (Deficit)    | Comprehensive<br>Income<br>(Loss) |              |
| <b>Balance at January 1, 2013</b>                        | 100          | \$     | \$ 1,130,968 | \$ (95,028)  | \$ (3,789)                        | \$ 1,032,151 |
| Equity compensation expense                              |              |        | 1,775        |              |                                   | 1,775        |
| Net income (loss)  |              |        |              | (13,451)     |                                   | (13,451)     |
| Foreign currency translation adjustment                  |              |        |              |              | (35)                              | (35)         |
| Change in fair value of interest rate swap, net of taxes |              |        |              |              | 428                               | 428          |
| <b>Balance at March 31, 2013</b>                         | 100          | \$     | \$ 1,132,743 | \$ (108,479) | \$ (3,396)                        | \$ 1,020,868 |
| <b>Balance at January 1, 2014</b>                        | 100          | \$     | \$ 1,139,375 | \$ (169,486) | \$ (1,343)                        | \$ 968,546   |
| Equity compensation expense                              |              |        | 1,892        |              |                                   | 1,892        |
| Capital contribution from Parent                         |              |        | 1,977        |              |                                   | 1,977        |
| Net income (loss)  |              |        |              | (2,989)      |                                   | (2,989)      |
| Foreign currency translation adjustment                  |              |        |              |              | (73)                              | (73)         |
| Change in fair value of interest rate swap, net of taxes |              |        |              |              | (124)                             | (124)        |
| <b>Balance at March 31, 2014</b>                         | 100          | \$     | \$ 1,143,244 | \$ (172,475) | \$ (1,540)                        | \$ 969,229   |

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)**

|  | <b>Three Months Ended<br/>March 31, 2014</b> | <b>Three Months Ended<br/>March 31, 2013</b> |
|--|--|--|
| <b>Operating activities</b>  |  |  |
| Net income (loss)  | \$ (2,989)                                   | \$ (13,451)                                  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |  |
| Depreciation and amortization  | 46,463                                       | 46,815                                       |
| Accretion  | (77)   | 4,140  |
| Equity compensation  | 1,892  | 1,775  |
| Deferred income tax expense (benefit)  | (22,132)                                     | (9,917)                                      |
| Amortization of debt discount and issuance costs   | 1,909  | 2,601  |
| Contingent consideration   | 1,960  |  |
| Impairment of property and equipment   | 3,067  |  |
| Other  |  | (34)   |
| Changes in operating assets and liabilities:   |  |  |
| Accounts receivable  | (950)  | (16,783)                                     |
| Prepaid expenses and other   | (4,279)                                      | (971)  |
| Accounts payable   | (984)  | 6,922  |
| Accrued expenses, deferred revenue and other liabilities                                 | 2,787  | 17,817                                       |
| Tax receivable agreement obligations to related parties                                  |  | (103)  |
| Net cash provided by (used in) operating activities                                      | 26,667                                       | 38,811                                       |
| <b>Investing activities</b>  |  |  |
| Purchases of property and equipment  | (14,511)                                     | (13,551)                                     |
| Payments for acquisitions, net of cash acquired  | (779)  |  |
| Net cash provided by (used in) investing activities                                      | (15,290)                                     | (13,551)                                     |
| <b>Financing activities</b>  |  |  |
| Debt principal payments  | (7,669)                                      | (3,252)                                      |
| Repayment of deferred financing arrangements   | (3,447)                                      |  |
| Capital contribution from Parent   | 1,977  |  |
| Other  | (1,877)                                      | (450)  |
| Net cash provided by (used in) financing activities                                      | (11,016)                                     | (3,702)                                      |
| Net increase (decrease) in cash and cash equivalents                                     | 361  | 21,558                                       |
| Cash and cash equivalents at beginning of period   | 76,538                                       | 31,763                                       |
| Cash and cash equivalents at end of period   | \$ 76,899                                    | \$ 53,321                                    |

See accompanying notes to 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)**

**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, pharmacies 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, providers and pharmacies 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. The Company changed the classification of rebate payments to its channel partners from cost of operations to a reduction of revenue to the extent that such rebate payments for any given channel partner were less than or equal to revenue otherwise earned from the respective channel partner. To conform to the current period presentation, rebate payments to channel partners resulted in a reduction of revenue of \$6,343 for the three months ended March 31, 2013.

*Accounting Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors and various other assumptions that the Company believes are necessary to consider in order to form a basis for making judgments about the carrying values of assets and liabilities, the



**Table of Contents**

**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

recorded amounts of revenue and expenses and disclosure of contingent assets and liabilities. The Company is subject to uncertainties such as the impact of future events, economic, environmental and political factors and changes in the Company's business environment; therefore, actual results could differ materially from these estimates. Accordingly, the accounting estimates used in the preparation of the Company's financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in the reported results of operations; and if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements. Estimates and assumptions by management affect: the allowance for doubtful accounts; the fair value assigned to assets acquired and liabilities assumed in business combinations; tax receivable agreement obligations; the fair value of interest rate swap obligations; contingent consideration; loss accruals; the carrying value of long-lived assets (including goodwill and intangible assets); the amortization period of long-lived assets (excluding goodwill); the carrying value, capitalization and amortization of software development costs; the provision and benefit for income taxes and related deferred tax accounts; certain accrued expenses; revenue recognition; contingencies; and the value attributed to equity awards.

***Recent Accounting Pronouncements***

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, which changes the requirements for reporting discontinued operations. Following adoption of this update, discontinued operations generally will be reported for the disposal by sale or otherwise of a component or a group of components that represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This update is effective for fiscal years and interim periods beginning after December 15, 2014, with early adoption permitted. The Company is currently assessing whether to adopt this update prior to the required effective date.

**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.

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****4. Business Combinations**

In February 2014, the Company acquired all of the equity interests of Vieosoft, Inc. ( Vieosoft ), a development stage enterprise.

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.

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

|   | Vieosoft | Goold     |
|---|----------|-----------|
| <b>Total Consideration Fair Value at Acquisition Date:</b>                        |          |           |
| Cash paid at closing  | \$ 800   | \$ 19,391 |
| Contingent consideration  | 6,015    | 5,553     |
| Other   |          | (5)       |
|   | \$ 6,815 | \$ 24,939 |
| <b>Allocation of the Consideration Transferred:</b>                               |          |           |
| Cash  | \$ 21    | \$ 1,101  |
| Accounts receivable   |          | 3,435     |
| Prepaid expenses and other current assets   |          | 647       |
| Property and equipment  |          | 7,695     |
| Identifiable intangible assets:   |          |           |
| Noncompetition agreements   | 1,040    | 280       |
| Customer relationships  |          | 5,160     |
| Backlog and other   | 2,060    | 460       |
| Goodwill  | 6,325    | 14,300    |
| Accounts payable  |          | (541)     |
| Accrued expenses  | (194)    | (2,076)   |
| Deferred revenues   |          | (101)     |
| Current maturities of long-term debt  | (1,877)  | (218)     |
| Deferred income tax liabilities   | (560)    | (5,203)   |
| Total consideration transferred   | \$ 6,815 | \$ 24,939 |
| <b>Acquisition costs in sales, marketing, general and administrative expense:</b> |          |           |
| For the three months ended March 31, 2014   | \$ 113   | \$        |
| For the three months ended March 31, 2013   | \$       | \$ 4      |

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

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

|  | Vieosoft  | Goold   |
|--|---|---|
| <b>Other Information:</b>  |   |   |
| Gross contractual accounts receivable  | \$  | \$ 3,435  |
| Amount not expected to be collected  | \$  | \$  |
| Goodwill expected to be deductible for tax purposes                          | \$  | \$  |
| <b>Contingent Consideration Information:</b>                                 |   |   |
| Contingent consideration range   | \$0 - \$43,104                                      | \$0 - \$15,000  |
| Measurement period   | February 12, 2014 to<br>December 31,<br>2017        | July 1, 2013 to<br>September 30,<br>2014  |
| Basis of measurement   | Milestone<br>achievement,<br>revenue<br>performance | Award of<br>contracts with<br>annual revenue<br>exceeding<br>targeted<br>amount |
| Type of measurement  | Level 3   | Level 3   |
| <i>Key assumptions at the acquisition date:</i>                              |   |   |
| Probability of achieving milestone objectives                                | 90%   | N/A   |
| Probability of winning new contracts   | N/A   | 10%-50%   |
| Probability of retaining contracts that expire during the measurement period | N/A   | 90%   |
| Range of baseline revenue retention for existing customers                   | N/A   | 75%-125%  |
| Expected payment date(s)   | 2015-2017   | 12/15/2014  |
| Discount rate(s)   | 5.2% to 53.2%                                       | 15.4%   |
| <b>Increase (decrease) to net loss:</b>                                      |   |   |
| For the three months ended March 31, 2014                                    | \$  | \$ 227  |
|  |   | \$ 1,733  |

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.

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****5. Goodwill and Intangible Assets**

Goodwill activity during the three months ended March 31, 2014 consisted of an increase to goodwill in the pharmacy services segment of \$6,325 related to the Vicosoft acquisition in February 2014.

Intangible assets subject to amortization as of March 31, 2014 consisted of the following:

|                           | <b>Weighted<br/>Average<br/>Remaining<br/>Life</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b>   |
|---------------------------|--|--------------------------------------|-------------------------------------|--------------|
| Customer relationships    | 17.1   | \$ 1,646,970                         | \$ (202,111)                        | \$ 1,444,859 |
| Trade names               | 17.2   | 156,530                              | (19,189)                            | 137,341      |
| Non-compete agreements    | 2.6  | 14,120                               | (6,434)                             | 7,686        |
| Data sublicense agreement | 3.5  | 31,000                               | (12,656)                            | 18,344       |
| Other                     | 5.9  | 2,520                                | (92)                                | 2,428        |
| Total                     |  | \$ 1,851,140                         | \$ (240,482)                        | \$ 1,610,658 |

Amortization expense was \$25,131 and \$27,278 for the three months ended March 31, 2014 and 2013, respectively. Aggregate future amortization expense for intangible assets is estimated to be:

|                  |              |
|------------------|--------------|
| 2014 (remainder) | \$ 75,769    |
| 2015             | 100,618      |
| 2016             | 100,031      |
| 2017             | 96,756       |
| 2018             | 92,732       |
| Thereafter       | 1,144,752    |
|                  | \$ 1,610,658 |



**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 March 31, 2014 and December 31, 2013, consisted of the following:

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| <i>Senior Credit Facilities</i>  |                   |                      |
| \$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$15,063 and \$15,826 at March 31, 2014 and December 31, 2013, respectively (effective interest rate of 4.21%) | \$ 1,255,539      | \$ 1,262,445         |
| \$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 \$7,438 and \$7,664 at March 31, 2014 and December 31, 2013, respectively (effective interest rate of 11.53%)                     | 367,562           | 367,336              |
| \$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,336 and \$9,560 at March 31, 2014 and December 31, 2013, respectively (effective interest rate of 11.86%)                  | 365,664           | 365,440              |
| <i>Obligation under data sublicense agreement</i>  | 22,543            | 22,543               |
| Other  | 9,620             | 12,592               |
| Less current portion   | (18,972)          | (31,330)             |
| Long-term debt   | \$ 2,001,956      | \$ 1,999,026         |

***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%.



---

**Table of Contents**

**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.

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.

**Table of Contents**

**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.

## Edgar Filing: Emdeon Inc. - Form 10-Q

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.

**Table of Contents**

**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 \$30,000 remained payable at March 31, 2014). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

***Other***

From time to time, the Company enters into deferred financing arrangements with certain vendors. The obligations under such arrangements are recorded at the present value of the scheduled payments. Such future payments totaled \$9,841 at March 31, 2014.

**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 months ended March 31, 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt pursuant to the Term Loan Facility. As of March 31, 2014, 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.

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

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 \$2,576 will be reclassified as an increase to interest expense.

The following table summarizes the fair value of the Company's derivative instruments at March 31, 2014 and December 31, 2013:

|   | Balance Sheet Location | Fair Values of Derivative Instruments |                   |
|---|------------------------|---------------------------------------|-------------------|
|   |                        | Asset (Liability) Derivatives         |                   |
|   |                        | March 31, 2014                        | December 31, 2013 |
| <b>Derivatives designated as hedging instruments:</b> |                        |                                       |                   |
| Interest rate swaps                                   | Other assets           | \$ 690                                | \$ 899            |
| Interest rate swaps                                   | Accrued expenses       | (2,576)                               | (2,575)           |
|   |                        | \$ (1,886)                            | \$ (1,676)        |

**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 months ended March 31, 2014 and 2013, respectively, is summarized in the following table:

|  | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 |
|--|-----------------------------------|-----------------------------------|
| <b>Derivatives in Cash Flow Hedging Relationships</b>  |                                   |                                   |
| (Gain)/loss related to effective portion of derivative recognized in other comprehensive income  | \$ 848                            | \$ 44                             |
| Gain/(loss) related to effective portion of derivative reclassified from accumulated other comprehensive income (loss) to interest expense | \$ (638)                          | \$ (638)                          |

**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.



## Edgar Filing: Emdeon Inc. - Form 10-Q

As of March 31, 2014, 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 \$2,601. If the Company had breached any of these provisions at March 31, 2014, 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.

**Table of Contents****Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****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 March 31, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall.

| <b>Description</b>                   | <b>Balance at<br/>March 31, 2014</b> | <b>Quoted in<br/>Markets<br/>Identical (Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs (Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--------------------------------------|--------------------------------------|--|--|--|
| Interest rate swaps                  | \$ (1,886)                           | \$   | \$ (1,886)   | \$   |
| Contingent consideration obligations | (13,459)                             |  |  | (13,459)   |
| <b>Total</b>                         | <b>\$ (15,345)</b>                   | <b>\$</b>  | <b>\$ (1,886)</b>  | <b>\$ (13,459)</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) using the overnight index swap rate as the discount rate.

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 March 31, 2014, 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 agreements and utilizes assumptions with regard to future sales, probabilities of achieving such future sales, the likelihood and 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.

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

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 March<br/>31,<br/>2014</b> | <b>Three Months<br/>Ended March 31,<br/>2013</b> |
|--|--|--|
| Balance at beginning of period                     | \$ (5,484)   | \$ (296)   |
| Issuance of contingent consideration               | (6,015)  |  |
| Settlement of contingent consideration             |  | 59   |
| Total changes included in contingent consideration | (1,960)  |  |
| Balance at end of period                           | \$ (13,459)  | \$ (237)   |

***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 March 31, 2014 were:

|                                    | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> |
|------------------------------------|----------------------------|-------------------|
| Cash and cash equivalents          | \$ 76,899                  | \$ 76,899         |
| Accounts receivable                | \$ 215,198                 | \$ 215,198        |
| Senior Credit Facilities (Level 1) | \$ 1,255,539               | \$ 1,272,190      |
| Senior Notes (Level 2)             | \$ 733,226                 | \$ 874,223        |

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.

**9. Legal Proceedings**

The Company has accrued an estimated potential loss of \$5,000 related to a vendor fee dispute. While the recorded amount represents the Company's current estimate, it is reasonably possible that future events confirming the loss and an estimate of the amount of loss may occur. In addition, the amount of loss could differ significantly from the current estimate.

Additionally, in the normal course of business, the Company is involved in various claims and legal proceedings. While the ultimate resolution of these matters has yet to be determined, the Company does not believe that their outcomes will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**10. Income Taxes**

In January 2014, the Company effected a change in the tax status of EBS Master LLC (EBS Master) from a partnership to a corporation. Prior to the tax status change, the Company recognized a deferred tax liability for the difference in the book and tax basis of its investment in EBS

## Edgar Filing: Emdeon Inc. - Form 10-Q

Master (i.e. outside basis). Following the tax status change, the Company's deferred tax balances reflect the differences in the book and tax bases of the individual assets and liabilities included in the corporation. In addition, as a result of the change in tax status, the Company was required to revise the apportionment of its income taxes among various state taxing jurisdictions. The effect of this change in tax status resulted in the recognition of an income tax benefit for the three months ended March 31, 2014.

---

**Table of Contents**

**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

After giving effect to this change in tax status, income taxes for the three months ended March 31, 2014 amounted to an income tax benefit of \$21,266 and an effective tax rate of 87.7%. The income tax benefit for the three months ended March 31, 2013, which does not reflect the change in tax status, was \$9,357 and resulted in an effective tax rate of 41.0%.

**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 \$353,457. \$151,394 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 March 31, 2014.

During the three months March 31, 2014, 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 effective tax rate resulting from the change in tax status of EBS Master from a partnership to a corporation and the acquisition of Viosoft. These revised estimates resulted in a decrease to pretax net loss of \$4,570 for the three months ended March 31, 2014.

**12. Segment Reporting**

Effective January 1, 2014, 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 three reportable segments: (a) payer services, (b) provider services and (c) pharmacy services. Listed below are the results of operations for each of the reportable segments. In addition to these reportable segments, the Company reports financial information for two additional operating segments that is presented on an aggregate basis. 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, 2013 as filed with the SEC.

***Payer Services Segment***

The payer services segment provides payment cycle solutions 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 patient billing and payment and consulting services.



**Table of Contents**

**Emdeon Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

***Provider Services Segment***

The provider services segment provides revenue cycle management solutions, government program eligibility and enrollment services and revenue optimization solutions primarily to hospitals, physician practices, laboratories 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, other electronic solutions and benefit administration services to pharmacies, pharmacy benefit management companies, government agencies and other payers related to prescription benefit claim filing, adjudication and management.

***All Other***

All Other consists of two operating segments, one of which provides revenue cycle management solutions through channel partners and one of which provides revenue cycle solutions, either directly or through channel partners, to dental practices.

***Corporate and Eliminations***

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:

|   | <b>Three Months Ended March 31, 2014</b> |                 |                 |                  |   |                     |
|---|--|-----------------|-----------------|------------------|---|---------------------|
|   | <b>Payer</b>                             | <b>Provider</b> | <b>Pharmacy</b> | <b>All Other</b> | <b>Corporate<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
| Revenue from external customers:                        |  |                 |                 |                  |   |                     |
| Claims management                                       | \$ 69,652                                | \$              | \$              | \$               | \$  | \$ 69,652           |
| Payment distribution services                           | 66,799                                   |                 |                 |                  |   | 66,799              |
| Patient billing and payment services                    | 67,932                                   |                 |                 |                  |   | 67,932              |
| Revenue cycle technology                                |  | 30,691          |                 |                  |   | 30,691              |
| Revenue cycle services                                  |  | 30,407          |                 |                  |   | 30,407              |
| Physician services                                      |  | 9,139           |                 |                  |   | 9,139               |
| Pharmacy  |  |                 | 31,192          |                  |   | 31,192              |
| Channel Partner   |  |                 |                 | 10,788           | (5,340)                                   | 5,448               |
| Dental  |  |                 |                 | 7,947            |   | 7,947               |
| Inter-segment revenue                                   | 2,189                                    |                 | 77              |                  | (2,266)                                   |                     |
| Net revenue   | \$ 206,572                               | \$ 70,237       | \$ 31,269       | \$ 18,735        | \$ (7,606)                                | \$ 319,207          |
| Income (loss) before income taxes                       |  |                 |                 |                  |   | \$ (24,255)         |
| Interest expense  |  |                 |                 |                  |   | 36,563              |
| Depreciation and amortization                           |  |                 |                 |                  |   | 46,463              |
| EBITDA  |  |                 |                 |                  |   | 58,771              |
| Equity compensation                                     |  |                 |                 |                  |   | 1,892               |
| Acquisition accounting adjustments                      |  |                 |                 |                  |   | 252                 |
| Acquisition-related costs                               |  |                 |                 |                  |   | 1,407               |
| Transaction-related costs and advisory fees             |  |                 |                 |                  |   | 1,500               |
| Strategic initiatives, duplicative and transition costs |  |                 |                 |                  |   | 5,094               |
| Severance and retention costs                           |  |                 |                 |                  |   | 2,928               |
| Accretion   |  |                 |                 |                  |   | (77)                |
| (Gain) loss on disposal of assets                       |  |                 |                 |                  |   | 3,067               |
| Contingent consideration                                |  |                 |                 |                  |   | 1,960               |
| Other   |  |                 |                 |                  |   | 1,511               |
| EBITDA Adjustments                                      |  |                 |                 |                  |   | 19,534              |
| Adjusted EBITDA   | \$ 64,489                                | \$ 29,683       | \$ 16,946       | \$ 9,786         | \$ (42,599)                               | \$ 78,305           |



**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 March 31, 2013 |           |           |           |                                  |              |
|---|-----------------------------------|-----------|-----------|-----------|----------------------------------|--------------|
|   | Payer                             | Provider  | Pharmacy  | All Other | Corporate<br>and<br>Eliminations | Consolidated |
| Revenue from external customers:                        |                                   |           |           |           |                                  |              |
| Claims management                                       | \$ 67,306                         | \$        | \$        | \$        | \$                               | \$ 67,306    |
| Payment distribution services                           | 65,629                            |           |           |           |                                  | 65,629       |
| Patient billing and payment services                    | 62,933                            |           |           |           |                                  | 62,933       |
| Revenue cycle technology                                |                                   | 28,311    |           |           |                                  | 28,311       |
| Revenue cycle services                                  |                                   | 30,349    |           |           |                                  | 30,349       |
| Physician services                                      |                                   | 8,762     |           |           |                                  | 8,762        |
| Pharmacy  |                                   |           | 24,553    |           |                                  | 24,553       |
| Channel Partner   |                                   |           |           | 9,657     | (6,343)                          | 3,314        |
| Dental  |                                   |           |           | 8,202     |                                  | 8,202        |
| Inter-segment revenue                                   | 982                               |           | 95        |           | (1,077)                          |              |
| Net revenue   | \$ 196,850                        | \$ 67,422 | \$ 24,648 | \$ 17,859 | \$ (7,420)                       | \$ 299,359   |
| Income (loss) before income taxes                       |                                   |           |           |           |                                  | \$ (22,808)  |
| Interest expense  |                                   |           |           |           |                                  | 41,415       |
| Depreciation and amortization                           |                                   |           |           |           |                                  | 46,815       |
| EBITDA  |                                   |           |           |           |                                  | 65,422       |
| Equity compensation                                     |                                   |           |           |           |                                  | 1,775        |
| Acquisition accounting adjustments                      |                                   |           |           |           |                                  | 274          |
| Acquisition-related costs                               |                                   |           |           |           |                                  | 497          |
| Transaction-related costs and advisory fees             |                                   |           |           |           |                                  | 1,500        |
| Strategic initiatives, duplicative and transition costs |                                   |           |           |           |                                  | 1,159        |
| Severance and retention costs                           |                                   |           |           |           |                                  | 886          |
| Accretion   |                                   |           |           |           |                                  | 4,140        |
| (Gain) loss on disposal of assets                       |                                   |           |           |           |                                  | (31)         |
| Other   |                                   |           |           |           |                                  | 422          |
| EBITDA Adjustments                                      |                                   |           |           |           |                                  | 10,622       |
| Adjusted EBITDA   | \$ 61,428                         | \$ 30,716 | \$ 14,913 | \$ 8,696  | \$ (39,709)                      | \$ 76,044    |

**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 three months ended March 31, 2014.

|   | Foreign<br>Currency<br>Translation<br>Adjustment | Cash Flow<br>Hedge | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|---|--|--------------------|---|
| Balance at January 1, 2014                          | \$ (264)   | \$ (1,079)         | \$ (1,343)  |
| Change associated with foreign currency translation | (73)   |                    | (73)  |
| Change associated with current period hedging       |  | (762)              | (762)   |
| Reclassification into earnings                      |  | 638                | 638   |
| Balance at March 31, 2014                           | \$ (337)   | \$ (1,203)         | \$ (1,540)  |

**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 March 31, 2014 and December 31, 2013, condensed consolidating statements of operations and comprehensive income (loss) for the three months ended March 31, 2014 and 2013, respectively, and condensed consolidating cash flows for the three months ended March 31, 2014 and 2013, 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 March 31, 2014 |                           |                              |                     |
|---|----------------------|---------------------------|------------------------------|---------------------|
|   | Emdeon<br>Inc.       | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated        |
| <b>ASSETS</b>   |                      |                           |                              |                     |
| Current assets:   |                      |                           |                              |                     |
| Cash and cash equivalents                                   | \$ 726               | \$ 76,173                 | \$                           | \$ 76,899           |
| Accounts receivable, net of allowance for doubtful accounts |                      | 215,198                   |                              | 215,198             |
| Deferred income tax assets                                  |                      | 14,371                    |                              | 14,371              |
| Prepaid expenses and other current assets                   | 7,363                | 22,272                    |                              | 29,635              |
| <b>Total current assets</b>                                 | <b>8,089</b>         | <b>328,014</b>            |                              | <b>336,103</b>      |
| Property and equipment, net                                 | 9                    | 254,485                   |                              | 254,494             |
| Due from affiliates   |                      | 88,640                    | (88,640)                     |                     |
| Investment in consolidated subsidiaries                     | 1,744,699            |                           | (1,744,699)                  |                     |
| Goodwill  |                      | 1,508,759                 |                              | 1,508,759           |
| Intangible assets, net                                      | 140,250              | 1,470,408                 |                              | 1,610,658           |
| Other assets, net   | 115,290              | 15,967                    | (111,402)                    | 19,855              |
| <b>Total assets</b>   | <b>\$ 2,008,337</b>  | <b>\$ 3,666,273</b>       | <b>\$ (1,944,741)</b>        | <b>\$ 3,729,869</b> |
| <b>LIABILITIES AND EQUITY</b>                               |                      |                           |                              |                     |
| Current liabilities:  |                      |                           |                              |                     |
| Accounts payable  | \$                   | \$ 6,889                  | \$                           | \$ 6,889            |
| Accrued expenses  | 18,576               | 117,002                   |                              | 135,578             |
| Deferred revenues   |                      | 10,416                    |                              | 10,416              |
| Current portion of long-term debt                           | 5,481                | 13,491                    |                              | 18,972              |
| <b>Total current liabilities</b>                            | <b>24,057</b>        | <b>147,798</b>            |                              | <b>171,855</b>      |
| Due to affiliates   | 88,640               |                           | (88,640)                     |                     |
| Long-term debt, excluding current portion                   | 775,992              | 1,225,964                 |                              | 2,001,956           |
| Deferred income tax liabilities                             |                      | 534,061                   | (111,402)                    | 422,659             |
| Tax receivable agreement obligations to related parties     | 150,419              |                           |                              | 150,419             |
| Other long-term liabilities                                 |                      | 13,751                    |                              | 13,751              |
| Commitments and contingencies                               |                      |                           |                              |                     |
| Equity  | 969,229              | 1,744,699                 | (1,744,699)                  | 969,229             |
| <b>Total liabilities and equity</b>                         | <b>\$ 2,008,337</b>  | <b>\$ 3,666,273</b>       | <b>\$ (1,944,741)</b>        | <b>\$ 3,729,869</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, 2013 |                        |                           |              |
|---|-------------------------|------------------------|---------------------------|--------------|
|   | Emdeon Inc.             | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| <b>ASSETS</b>   |                         |                        |                           |              |
| Current assets:   |                         |                        |                           |              |
| Cash and cash equivalents                                   | \$ 2,794                | \$ 73,744              | \$                        | \$ 76,538    |
| Accounts receivable, net of allowance for doubtful accounts |                         | 214,247                |                           | 214,247      |
| Deferred income tax assets                                  |                         | 6,317                  |                           | 6,317        |
| Prepaid expenses and other current assets                   | 3,441                   | 23,578                 |                           | 27,019       |
| Total current assets  | 6,235                   | 317,886                |                           | 324,121      |
| Property and equipment, net                                 | 10                      | 269,460                |                           | 269,470      |
| Due from affiliates   |                         | 69,142                 | (69,142)                  |              |
| Investment in subsidiaries                                  | 1,764,213               |                        | (1,764,213)               |              |
| Goodwill  |                         | 1,502,434              |                           | 1,502,434    |
| Intangible assets, net                                      | 142,500                 | 1,490,188              |                           | 1,632,688    |
| Other assets, net   | 64,536                  | 14,949                 | (60,316)                  | 19,169       |
| Total assets  | \$ 1,977,494            | \$ 3,664,059           | \$ (1,893,671)            | \$ 3,747,882 |
| <b>LIABILITIES AND EQUITY</b>                               |                         |                        |                           |              |
| Current liabilities:  |                         |                        |                           |              |
| Accounts payable  | \$                      | \$ 8,367               | \$                        | \$ 8,367     |
| Accrued expenses  | 8,205                   | 122,944                |                           | 131,149      |
| Deferred revenues   |                         | 10,881                 |                           | 10,881       |
| Current portion of long-term debt                           | 5,775                   | 25,555                 |                           | 31,330       |
| Total current liabilities                                   | 13,980                  | 167,747                |                           | 181,727      |
| Due to affiliates   | 69,142                  |                        | (69,142)                  |              |
| Long-term debt, excluding current portion                   | 775,330                 | 1,223,696              |                           | 1,999,026    |
| Deferred income tax liabilities                             |                         | 496,579                | (60,316)                  | 436,263      |
| Tax receivable agreement obligations to related parties     | 150,496                 |                        |                           | 150,496      |
| Other long-term liabilities                                 |                         | 11,824                 |                           | 11,824       |
| Commitments and contingencies                               |                         |                        |                           |              |
| Total equity  | 968,546                 | 1,764,213              | (1,764,213)               | 968,546      |
| Total liabilities and equity                                | \$ 1,977,494            | \$ 3,664,059           | \$ (1,893,671)            | \$ 3,747,882 |

**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 March 31, 2014</b> |                                   |                                      |                     |
|---|--|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                       | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Revenue   | \$                                       | \$ 319,207                        | \$                                   | \$ 319,207          |
| Costs and expenses:   |  |                                   |                                      |                     |
| Cost of operations (exclusive of depreciation and amortization below) |  | 194,133                           |                                      | 194,133             |
| Development and engineering   |  | 9,236                             |                                      | 9,236               |
| Sales, marketing, general and administrative                          | 7,016                                    | 48,168                            |                                      | 55,184              |
| Depreciation and amortization   | 2,251                                    | 44,212                            |                                      | 46,463              |
| Accretion   | (77)                                     |                                   |                                      | (77)                |
| Operating income (loss)   | (9,190)                                  | 23,458                            |                                      | 14,268              |
| Equity in earnings of consolidated subsidiaries                       | 21,408                                   |                                   | (21,408)                             |                     |
| Interest expense, net   | 23,390                                   | 13,173                            |                                      | 36,563              |
| Contingent consideration  |  | 1,960                             |                                      | 1,960               |
| Income (loss) before income tax provision (benefit)                   | (53,988)                                 | 8,325                             | 21,408                               | (24,255)            |
| Income tax provision (benefit)  | (50,999)                                 | 29,733                            |                                      | (21,266)            |
| Net income (loss)   | \$ (2,989)                               | \$ (21,408)                       | \$ 21,408                            | \$ (2,989)          |

**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 March 31, 2013</b> |                                   |                                      |                     |
|---|--|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                       | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Revenue   | \$                                       | \$ 299,359                        | \$                                   | \$ 299,359          |
| Costs and expenses:   |  |                                   |                                      |                     |
| Cost of operations (exclusive of depreciation and amortization below) |  | 183,424                           |                                      | 183,424             |
| Development and engineering   |  | 7,698                             |                                      | 7,698               |
| Sales, marketing, general and administrative                          | 2,293                                    | 36,382                            |                                      | 38,675              |
| Depreciation and amortization   | 2,251                                    | 44,564                            |                                      | 46,815              |
| Accretion   | 4,140                                    |                                   |                                      | 4,140               |
| Operating income (loss)   | (8,684)                                  | 27,291                            |                                      | 18,607              |
| Equity in earnings of consolidated subsidiaries                       | (7,976)                                  |                                   | 7,976                                |                     |
| Interest expense, net   | 23,552                                   | 17,863                            |                                      | 41,415              |
| Income (loss) before income tax provision (benefit)                   | (24,260)                                 | 9,428                             | (7,976)                              | (22,808)            |
| Income tax provision (benefit)  | (10,809)                                 | 1,452                             |                                      | (9,357)             |
| Net income (loss)   | \$ (13,451)                              | \$ 7,976                          | \$ (7,976)                           | \$ (13,451)         |

**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 March 31, 2014</b> |                                   |                                      |                     |
|---|--|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                       | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Net income (loss)   | \$ (2,989)                               | \$ (21,408)                       | \$ 21,408                            | \$ (2,989)          |
| Other comprehensive income (loss):                        |  |                                   |                                      |                     |
| Changes in fair value of interest rate swap, net of taxes | (124)                                    |                                   |                                      | (124)               |
| Foreign currency translation adjustment                   |  | (73)                              |                                      | (73)                |
| Equity in other comprehensive earnings                    | (73)                                     |                                   | 73                                   |                     |
| Other comprehensive income (loss)                         | (197)                                    | (73)                              | 73                                   | (197)               |
| Total comprehensive income (loss)                         | \$ (3,186)                               | \$ (21,481)                       | \$ 21,481                            | \$ (3,186)          |

**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 March 31, 2013</b> |                                   |                                      |                     |
|---|--|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>                       | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Net income (loss)   | \$ (13,451)                              | \$ 7,976                          | \$ (7,976)                           | \$ (13,451)         |
| Other comprehensive income (loss):                        |  |                                   |                                      |                     |
| Changes in fair value of interest rate swap, net of taxes | 428                                      |                                   |                                      | 428                 |
| Foreign currency translation adjustment                   |  | (35)                              |                                      | (35)                |
| Equity in other comprehensive earnings                    | (35)                                     |                                   | 35                                   |                     |
| Other comprehensive income (loss)                         | 393                                      | (35)                              | 35                                   | 393                 |
| Total comprehensive income (loss)                         | \$ (13,058)                              | \$ 7,941                          | \$ (7,941)                           | \$ (13,058)         |



**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**

|  | Three Months Ended March 31, 2014 |                           |                              |              |
|--|-----------------------------------|---------------------------|------------------------------|--------------|
|  | Emdeon Inc.                       | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
| <b>Operating activities</b>  |                                   |                           |                              |              |
| Net Income (loss)  | \$ (2,989)                        | \$ (21,408)               | \$ 21,408                    | \$ (2,989)   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                   |                           |                              |              |
| Depreciation and amortization  | 2,251                             | 44,212                    |                              | 46,463       |
| Equity compensation  | 114                               | 1,778                     |                              | 1,892        |
| Deferred income tax expense (benefit)  | (51,086)                          | 28,954                    |                              | (22,132)     |
| Equity in earnings of consolidated subsidiaries  | 21,408                            |                           | (21,408)                     |              |
| Accretion  | (77)                              |                           |                              | (77)         |
| Amortization of debt discount and issuance costs   | 652                               | 1,257                     |                              | 1,909        |
| Contingent consideration   |                                   | 1,960                     |                              | 1,960        |
| Impairment of property and equipment   |                                   | 3,067                     |                              | 3,067        |
| Changes in operating assets and liabilities:   |                                   |                           |                              |              |
| Accounts receivable  |                                   | (950)                     |                              | (950)        |
| Prepaid expenses and other   | (3,836)                           | (443)                     |                              | (4,279)      |
| Accounts payable   |                                   | (984)                     |                              | (984)        |
| Accrued expenses, deferred revenue, and other liabilities                                | 10,300                            | (7,513)                   |                              | 2,787        |
| Due to/from affiliates   | 19,498                            | (19,498)                  |                              |              |
| Net cash provided (used in) by operating activities                                      | (3,765)                           | 30,432                    |                              | 26,667       |
| <b>Investing activities</b>  |                                   |                           |                              |              |
| Purchases of property and equipment  |                                   | (14,511)                  |                              | (14,511)     |
| Payments for acquisitions, net of cash acquired  |                                   | (779)                     |                              | (779)        |
| Investment in subsidiary   | (114)                             |                           | 114                          |              |
| Net cash provided by (used in) investing activities                                      | (114)                             | (15,290)                  | 114                          | (15,290)     |
| <b>Financing activities</b>  |                                   |                           |                              |              |
| Distributions to Emdeon Inc. net   |                                   | 114                       | (114)                        |              |
| Debt principal payments  | (165)                             | (7,504)                   |                              | (7,669)      |
| Repayment of deferred financing arrangements   |                                   | (3,447)                   |                              | (3,447)      |
| Capital contribution from Parent   | 1,975                             | 2                         |                              | 1,977        |
| Other  |                                   | (1,877)                   |                              | (1,877)      |
| Net cash provided by (used in) financing activities                                      | 1,810                             | (12,712)                  | (114)                        | (11,016)     |
| Net decrease in cash and cash equivalents  | (2,069)                           | 2,430                     |                              | 361          |
| Cash and cash equivalents at beginning of period   | 2,794                             | 73,744                    |                              | 76,538       |

Edgar Filing: Emdeon Inc. - Form 10-Q

|  |        |           |           |
|--|--------|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 726 | \$ 76,173 | \$ 76,899 |
|--|--------|-----------|-----------|

**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>Three Months Ended March 31, 2013</b> |                                   |                                      |                     |
|--|--|-----------------------------------|--------------------------------------|---------------------|
|  | <b>Emdeon Inc.</b>                       | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| <b>Operating activities</b>  |  |                                   |                                      |                     |
| Net income (loss)  | \$ (13,451)                              | \$ 7,976                          | \$ (7,976)                           | \$ (13,451)         |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  |                                   |                                      |                     |
| Depreciation and amortization  | 2,251                                    | 44,564                            |                                      | 46,815              |
| Accretion expense  | 4,140                                    |                                   |                                      | 4,140               |
| Equity compensation expense  | 32                                       | 1,743                             |                                      | 1,775               |
| Deferred income tax benefit  | (11,120)                                 | 1,203                             |                                      | (9,917)             |
| Amortization of debt discount and issuance costs   | 605                                      | 1,996                             |                                      | 2,601               |
| Equity in earnings of consolidated subsidiaries  | (7,976)                                  |                                   | 7,976                                |                     |
| Other  |  | (34)                              |                                      | (34)                |
| Changes in operating assets and liabilities:   |  |                                   |                                      |                     |
| Accounts receivable  |  | (16,783)                          |                                      | (16,783)            |
| Prepaid expenses and other   | 6,794                                    | (7,765)                           |                                      | (971)               |
| Accounts payable   |  | 6,922                             |                                      | 6,922               |
| Accrued expenses, deferred revenue, and other liabilities  | 19,238                                   | (1,421)                           |                                      | 17,817              |
| Tax receivable agreement obligations to related parties  | (103)                                    |                                   |                                      | (103)               |
| Due to/from affiliates   | 442                                      | (442)                             |                                      |                     |
| Net cash provided by (used in) operating activities  | 852                                      | 37,959                            |                                      | 38,811              |
| <b>Investing activities</b>  |  |                                   |                                      |                     |
| Purchases of property and equipment  |  | (13,551)                          |                                      | (13,551)            |
| Investment in subsidiaries, net  | 9,860                                    |                                   | (9,860)                              |                     |
| Net cash provided by (used in) investing activities  | 9,860                                    | (13,551)                          | (9,860)                              | (13,551)            |
| <b>Financing activities</b>  |  |                                   |                                      |                     |
| Distributions to Emdeon Inc., net  |  | (9,860)                           | 9,860                                |                     |
| Debt principal payments  | (267)                                    | (2,985)                           |                                      | (3,252)             |
| Other  |  | (450)                             |                                      | (450)               |
| Net cash provided by (used in) financing activities  | (267)                                    | (13,295)                          | 9,860                                | (3,702)             |
| Net increase (decrease) in cash and cash equivalents   | 10,445                                   | 11,113                            |                                      | 21,558              |
| Cash and cash equivalents at beginning of period   | 754                                      | 31,009                            |                                      | 31,763              |
| Cash and cash equivalents at end of period   | \$ 11,199                                | \$ 42,122                         | \$                                   | \$ 53,321           |



---

**Table of Contents**

**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, 2013 ( 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 our 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, pharmacies and patients in the United States healthcare system. Our solutions integrate and automate key business and administrative functions of our payer, provider and pharmacy 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 three reportable segments: (i) payer services, which provides solutions primarily to commercial insurance companies, third party administrators and governmental payers; (ii) provider services, which provides solutions primarily to hospitals, physician practices, laboratories and other healthcare providers; and (iii) 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 healthcare related to insurance eligibility and benefit verification, claims management, payment integrity and payment distribution. Additionally, we provide patient billing and payment and consulting services through our payer services segment. Through our provider services segment, we provide

---

**Table of Contents**

revenue cycle management solutions, government program eligibility and enrollment services and revenue optimization solutions that simplify providers' revenue cycle and workflow, reduce related costs and improve cash flow. Through our pharmacy services segment, we provide electronic prescribing, other electronic solutions and benefit administration services 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 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 environment in which we and our customers operate by changing how healthcare services are covered, delivered and reimbursed through expanded coverage of previously uninsured individuals, 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. We are unable to predict

---

## **Table of Contents**

how providers, payers, pharmacies and other healthcare market participants will respond to the various reform provisions of the ACA, and we cannot be sure that the markets for our solutions will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

Demographic trends affecting the healthcare industry, such as population growth and aging or unemployment rates, 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 insurance 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 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 volumes, which, in turn, may adversely impact our revenues and cost of operations.

### **Recent Developments**

Effective January 1, 2014, we reorganized our reportable segments as payer services, provider services and pharmacy services. In addition to these reportable segments, we report financial information for two additional operating segments that is presented on an aggregate basis. This discussion and analysis related to prior periods has been restated to reflect our current organizational structure.

In January 2014, we effected a change in the tax status of EBS Master LLC ( EBS Master ) from a partnership to a corporation. Prior to the tax status change, we recognized a deferred tax liability for the difference in the book and tax basis of its investment in EBS Master (i.e. outside basis). Following the tax status change, our deferred tax balances reflect the differences in the book and tax bases of the individual assets and liabilities included in the corporation. In addition, as a result of the change in tax status, we were required to revise the apportionment of our income taxes among various state taxing jurisdictions. The effect of this change in tax status resulted in the recognition of an income tax benefit for the three months ended March 31, 2014.

In February 2014, we acquired all of the equity interests of Vieosoft, Inc. ( Vieosoft ), a development stage enterprise, for initial cash consideration, contingent cash consideration that varies based on the performance of the acquired business in each of the four years following the acquisition and the assumption of certain liabilities. Such contingent consideration payments are limited to a maximum of \$43.1 million on a cumulative basis over the respective periods.

### **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 (net of rebates to certain customers that offset revenue) 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.

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

## **Table of Contents**

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 and 2014, 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 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. While these rebates are generally a component of our cost of operations, in cases where the channel partners are also our customers, these rebates generally are recognized as an offset to revenue.

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

Our material costs relate primarily to our patient statements and payment 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, sales, marketing, general and administrative expense and corporate 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 the level of our recent 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, our interest expense may 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 historically has varied from the expense that would be expected based on statutory rates due principally to our organizational structure. The recognition of valuation allowances related to certain net operating loss carryovers and other items also can affect our income tax expense. For additional information, see the discussion of income taxes in the section **Significant Items Affecting Comparability-Income Taxes** .

### **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:



**Table of Contents****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, 2013 and affected segments:

| Date          | Business                       | Description   | Affected Segment  |
|---------------|--------------------------------|---|-------------------|
| June 2013     | Goold Health Systems ( Goold ) | Technology-enabled provider of pharmacy benefit and related services primarily to State Medicaid agencies | Pharmacy Services |
| February 2014 | Vieosoft, Inc. ( Vieosoft )    | Development stage enterprise  | 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, including the change in tax status of EBS Master from a partnership to a corporation in January 2014. 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:

|   | Three Months Ended | Three Months Ended |
|---|--------------------|--------------------|
|   | March 31,<br>2014  | March 31,<br>2013  |
| Statutory United States federal tax rate    | 35.0%              | 35.0%              |
| State income taxes (net of federal benefit) | 40.0               | 1.9                |
| Change in tax status                        | 12.4               |                    |
| Contingent consideration                    | (2.8)              |                    |
| Other                                       | 3.1                | (0.7)              |
| Tax credits                                 |                    | 4.8                |
| <b>Effective income tax rate</b>            | <b>87.7%</b>       | <b>41.0%</b>       |

**State Income Taxes** Our effective tax rate for state income taxes is generally impacted by changes in our apportionment. In addition, our effective tax rate for state income taxes for the three months ended March 31, 2014 was affected by the change in tax status of EBS Master from a partnership to a corporation. Approximately 32% of the state tax rate above for the three months ended March 31, 2014 represents a one-time adjustment for this change in tax status.

**Change in Tax Status** Prior to the change in tax status of EBS Master from a partnership to a corporation, we recognized a deferred tax liability for the difference in the book and tax basis of our investment in EBS Master (i.e. outside basis). Following the tax status change, our deferred tax balances reflect the differences in the book and tax bases of the individual assets and liabilities included in the corporation.

**Contingent Consideration** Certain of our acquisitions require us to pay additional consideration based on the satisfaction of certain performance objectives. While changes in the fair value of these obligations impact our net loss, there is no associated change in tax basis.

**Tax Credits** In January 2013, the United States research and development tax credit was reenacted with an effective date of January 1, 2012. Though we are able to recognize tax benefits from our 2012 research and development activities, we were precluded from recognizing such tax benefits until the date of enactment. As a result, we recognized the estimated full year 2012 and first quarter 2013 impacts during the three months ended March 31, 2013.



## **Table of Contents**

### ***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 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*) (collectively, the *Senior Credit Facilities*). In April 2013, we amended the *Senior Credit Agreement* to reduce the LIBOR-based interest rate by 125 basis points, and also to modify certain financial covenants.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with United States 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 months ended March 31, 2014 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 months ended March 31, 2014 and 2013, respectively (amounts in thousands).

|   | Three Months Ended<br>March 31, 2014 |                 | Three Months Ended<br>March 31, 2013 |                 |
|---|--------------------------------------|-----------------|--------------------------------------|-----------------|
|   | Amount                               | % of<br>Revenue | Amount                               | % of<br>Revenue |
| Revenues  | \$ 319,207                           | 100.0%          | \$ 299,359                           | 100.0%          |
| Cost and expenses:  |                                      |                 |                                      |                 |
| Cost of operations (exclusive of depreciation and amortization below) | 194,133                              | 60.8            | 183,424                              | 61.3            |
| Development and engineering   | 9,236                                | 2.9             | 7,698                                | 2.6             |
| Sales, marketing, general and administrative                          | 55,184                               | 17.3            | 38,675                               | 12.9            |
| Depreciation and amortization   | 46,463                               | 14.6            | 46,815                               | 15.6            |
| Accretion   | (77)                                 |                 | 4,140                                | 1.4             |
| Operating income  | 14,268                               | 4.5             | 18,607                               | 6.2             |
| Interest expense, net   | 36,563                               | 11.5            | 41,415                               | 13.8            |
| Contingent consideration  | 1,960                                | 0.6             |                                      |                 |
| Income (loss) before income tax provision (benefit)                   | (24,255)                             | (7.6)           | (22,808)                             | (7.6)           |
| Income tax provision (benefit)  | (21,266)                             | (6.7)           | (9,357)                              | (3.1)           |
| Net income (loss)   | \$ (2,989)                           | (0.9)%          | \$ (13,451)                          | (4.5)%          |

---

**Table of Contents****Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013*****Revenues***

Our total revenues were \$319.2 million for the three months ended March 31, 2014 as compared to \$299.4 million for the three months ended March 31, 2013, an increase of \$19.8 million, or 6.6%. Factors affecting our revenues are described in the various segment discussions below.

***Cost of Operations***

Our total cost of operations was \$194.1 million for the three months ended March 31, 2014 as compared to \$183.4 million for the three months ended March 31, 2013, an increase of \$10.7 million, or 5.8%. As a percentage of revenue, our cost of operations was 60.8% for the three months ended March 31, 2014 as compared to 61.3% the three months ended March 31, 2013. The increase in our cost of operations is primarily due to volume growth, including the impact of the USPS postage rate increase effective in January 2014, the inclusion of the acquired Goold business and increased strategic growth initiative and labor costs. The decrease in our cost of operations as a percentage of revenue is primarily due to changes in revenue mix.

***Development and Engineering Expense***

Our total development and engineering expense was \$9.2 million for the three months ended March 31, 2014 as compared to \$7.7 million for the three months ended March 31, 2013, an increase of \$1.5 million, or 20.0%. The increase in our development and engineering expense is primarily due to strategic growth initiative and labor costs.

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

Our total sales, marketing, general and administrative expense was \$55.2 million for the three months ended March 31, 2014 as compared to \$38.7 million for the three months ended March 31, 2013, an increase of \$16.5 million, or 42.7%. The increase in our sales, marketing, general and administrative expense was primarily due to increased strategic growth initiative costs, increased severance costs, a charge related to canceling a product development project, the inclusion of the acquired Goold business and increased labor costs.

***Depreciation and Amortization Expense***

Our depreciation and amortization expense was \$46.5 million for the three months ended March 31, 2014 as compared to \$46.8 million for the three months ended March 31, 2013, a decrease of \$0.3 million, or 0.8%. This decrease was primarily due to the full amortization of our backlog intangible assets that were initially recorded in connection with the acquisition of the Company by affiliates of Blackstone, partially offset by additional expense attributable to increased capital expenditures and acquisition activity.

***Accretion***

Our accretion was \$(0.1) million for the three months ended March 31, 2014 as compared to \$4.1 million for the three months ended March 31, 2013. The amount recognized as accretion 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 corporate structure, leverage, operations or other factors. During the three months ended March 31, 2014, we changed our estimate of the timing and amount of future cash flows attributable to our tax receivable agreement obligations as a result of the effective tax rate resulting from the change in tax status of EBS Master from a partnership to a corporation and the acquisition of Vieosoft. These revised estimates resulted in a decrease to pretax net loss of \$4.6 million for the three months ended March 31, 2014.

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

Our interest expense was \$36.6 million for the three months ended March 31, 2014 as compared to \$41.4 million for the three months ended March 31, 2013, a decrease of \$4.9 million, or 11.7%. Interest expense for the three months ended March 31, 2014 includes the effect of lower interest rates on the Senior Credit Facilities as a result of the April 2013 repricing transaction.

**Income Taxes**

Our income tax benefit was \$21.3 million for the three months ended March 31, 2014 as compared to an income tax benefit of \$9.4 million for the three months ended March 31, 2013. Our effective tax rate was 87.7% for the three months ended March 31, 2014 as compared to 41.0% for the three months ended March 31, 2013. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to the change in the tax status of EBS Master from a partnership to a corporation in January 2014.

**Segment Revenues and Adjusted EBITDA**

We operate our business in three reportable segments: payer services, provider services and pharmacy services. In addition to these reportable segments, we report financial information for two additional operating segments on an aggregate basis, one of which provides revenue cycle management solutions through channel partners and the other of which provides revenue cycle solutions, either directly or through channel partners, to dental practices. We also 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 net interest expense, income tax provision (benefit) 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; strategic initiatives, duplicative and transition costs; and contingent consideration adjustments. 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):

|                                      | March 31,<br>2014 | March 31,<br>2013 | \$ Change |
|--------------------------------------|-------------------|-------------------|-----------|
| Revenue:                             |                   |                   |           |
| Claims management                    | \$ 69,652         | \$ 67,306         | \$ 2,346  |
| Payment distribution services        | 66,799            | 65,629            | 1,170     |
| Patient billing and payment services | 67,932            | 62,933            | 4,999     |
| Intersegment revenue                 | 2,189             | 982               | 1,207     |
|                                      | \$ 206,572        | \$ 196,850        | \$ 9,722  |
| Adjusted EBITDA                      | \$ 64,489         | \$ 61,428         | \$ 3,061  |

Claims management revenue for the three months ended March 31, 2014 increased by \$2.3 million, or 3.5%, as compared to the prior year period primarily due to new sales and implementations, partially offset by the impact of market pricing pressures on our transaction rates.

**Table of Contents**

Payment distribution services revenues for the three months ended March 31, 2014 increased by \$1.2 million, or 1.8%, as compared to the prior year period. This increase was primarily driven by new sales and implementations, partially offset by customer attrition.

Patient billing and payment services revenue for the three months ended March 31, 2014 increased by \$5.0 million, or 7.9%, as compared to the prior year period. This increase was primarily driven by the impact of the USPS postage rate increase effective in January 2014 and new sales and implementations, partially offset by customer attrition.

Payer services adjusted EBITDA for the three months ended March 31, 2014 increased by \$3.1 million, or 5.0%, as compared to the prior year period. As a percentage of revenue, payer services adjusted EBITDA was 31.2% for both the three months ended March 31, 2014 and 2013. The increase in payer services adjusted EBITDA was primarily due to the impact of the revenue items described above, partially offset by increased strategic growth initiative costs.

**Provider Services**

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

|                          | March 31,<br>2014 | March 31,<br>2013 | \$ Change       |
|--------------------------|-------------------|-------------------|-----------------|
| <b>Revenue:</b>          |                   |                   |                 |
| Revenue cycle technology | \$ 30,691         | \$ 28,311         | \$ 2,380        |
| Revenue cycle services   | 30,407            | 30,349            | 58              |
| Physician services       | 9,139             | 8,762             | 377             |
|                          | <b>\$ 70,237</b>  | <b>\$ 67,422</b>  | <b>\$ 2,815</b> |
| <br>Adjusted EBITDA      | <br>\$ 29,683     | <br>\$ 30,716     | <br>\$ (1,033)  |

Revenue cycle technology revenue for the three months ended March 31, 2014 increased by \$2.4 million, or 8.4%, 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 March 31, 2014 increased by \$0.1 million, or 0.2%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition and the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment services.

Physician services revenue for the three months ended March 31, 2014 increased by \$0.4 million, or 4.3%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Provider services adjusted EBITDA for the three months ended March 31, 2014 decreased by \$1.0 million, or 3.4%, as compared to the prior year period. As a percentage of revenue, provider services adjusted EBITDA was 42.3% for the three months ended March 31, 2014 as compared to 45.6% for the three months ended March 31, 2013. The decrease in provider revenue cycle solutions adjusted EBITDA and as a percentage of revenue was primarily due to increased labor costs in advance of related revenues, contracted service modifications and 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, partially offset by the impact of the other revenue items described above.

**Table of Contents****Pharmacy Services**

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

|                      | March 31,<br>2014 | March 31,<br>2013 | \$ Change |
|----------------------|-------------------|-------------------|-----------|
| Revenue:             |                   |                   |           |
| Pharmacy services    | \$ 31,192         | \$ 24,553         | \$ 6,639  |
| Intersegment revenue | 77                | 95                | (18)      |
|                      | \$ 31,269         | \$ 24,648         | \$ 6,621  |
| Adjusted EBITDA      | \$ 16,946         | \$ 14,913         | \$ 2,033  |

Pharmacy services revenue for the three months ended March 31, 2014 increased by \$6.6 million, or 27.0%, as compared to the prior year period. Pharmacy services revenue for the three months ended March 31, 2014 included \$5.7 million related to the Goold acquisition. Excluding this revenue, pharmacy services revenue for the three months ended March 31, 2014 increased by \$1.0 million, or 3.9%, as compared to the prior year period. This increase was primarily due to new sales and implementations.

Pharmacy services adjusted EBITDA for the three months ended March 31, 2014 increased by \$2.0 million, or 13.6%, 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 54.2% for the three months ended March 31, 2014 as compared to 60.5% for the prior year period. 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, changes in revenue mix and the impact of the Goold and Vieosoft acquisitions.

**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 the 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.

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.



**Table of Contents*****Cash Flows*****Operating Activities**

Cash provided by operating activities for the three months ended March 31, 2014 was \$26.7 million as compared to \$38.8 million for three months ended March 31, 2013. The \$12.1 million decrease is primarily due to a difference in the timing of interest payments under our senior notes.

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 three months ended March 31, 2014 was \$15.3 million as compared to \$13.6 million for the three months ended March 31, 2013. Cash used in investing activities for each of the three months ended March 31, 2014 and 2013 consisted of capital expenditures for property and equipment and cash consideration paid for acquisitions.

**Financing Activities**

Cash used in financing activities for the three months ended March 31, 2014 was \$11.0 million as compared to \$3.7 million for the three months ended March 31, 2013. Cash used in financing activities for each of the three months ended March 31, 2014 and 2013 primarily consisted of principal payments under our Senior Credit Facilities and deferred financing arrangements.

**Long-term Debt**

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

Long-term debt as of March 31, 2014 and December 31, 2013, consisted of the following:

|  | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|---------------------------|------------------------------|
| <i>Senior Credit Facilities</i>  |                           |                              |
| \$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$15,063 and \$15,826 at March 31, 2014 and December 31, 2013, respectively (effective interest rate of 4.21%) | \$ 1,255,539              | \$ 1,262,445                 |
| \$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 \$7,438 and \$7,664 at March 31, 2014 and December 31, 2013, respectively (effective interest rate of 11.53%)                     | 367,562                   | 367,336                      |
| \$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,336 and \$9,560 at March 31, 2014 and December 31, 2013, respectively (effective interest rate of 11.86%)                  | 365,664                   | 365,440                      |
| <i>Obligation under data sublicense agreement</i>  | 22,543                    | 22,543                       |
| <i>Other</i>   | 9,620                     | 12,592                       |
| Less current portion   | (18,972)                  | (31,330)                     |
| Long-term debt   | \$ 2,001,956              | \$ 1,999,026                 |

---

**Table of Contents*****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).

In April 2013, we 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.

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, we 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.

**Table of Contents**

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.

The Senior Credit Agreement requires 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***

## Edgar Filing: Emdeon Inc. - Form 10-Q

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 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.

## **Table of Contents**

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.

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 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.

## **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%.

## Edgar Filing: Emdeon Inc. - Form 10-Q

As of March 31, 2014, we had outstanding borrowings of \$1,271 million (before unamortized debt discount) under the Senior Credit Agreement. As of March 31, 2014, the LIBOR-based interest rate on the Term Loan Facility and Revolving Facility were each 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.

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.

## **Table of Contents**

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 March 31, 2014, 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 March 31, 2014, our interest rates must increase by more than 102 basis points before our interest expense or cash flows are affected. Based on our outstanding debt as of March 31, 2014, 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 minimal impact on our earnings and cash flows.

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 March 31, 2014. Based upon that evaluation, our CEO and CFO concluded that, as of March 31, 2014, 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 in accordance 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 March 31, 2014, 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.

### **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.

**Table of Contents**

**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.



**Table of Contents**

**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.

Date: May 13, 2014

EMDEON INC.

By: /s/ Neil E. de Crescenzo  
Neil E. de Crescenzo, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: May 13, 2014

By: /s/ Randy P. Giles  
Randy P. Giles, Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Table of Contents**

**Exhibit Index**

| Exhibit |  |
|---------|--|
| No.     |  |
| 4.1     | 2019 Notes Supplemental Indenture, dated as of April 8, 2014, between Vieosoft, Inc. and Wilmington Trust, National Association, as trustee (filed herewith).  |
| 4.2     | 2020 Notes Supplemental Indenture, dated as of April 8, 2014, between Vieosoft, Inc. and Wilmington Trust, National Association, as trustee (filed herewith).  |
| 10.1    | Employment Agreement, dated February 4, 2014, between Randy Giles and Emdeon Business Services LLC (included as Exhibit 10.20 to the Company's Annual Report on Form 10-K (File No. 333-182786), filed on March 17, 2014, and incorporated herein by reference).               |
| 10.2    | Transition Letter Agreement dated February 3, 2014, between Bob A. Newport, Jr. and Emdeon Business Services LLC (included as Exhibit 10.15 to the Company's Annual Report on Form 10-K (File No. 333-182786), filed on March 17, 2014, and incorporated herein by reference). |
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).   |
| 31.2    | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).   |
| 32.1    | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).   |
| 32.2    | Certification of Chief Financial Officer 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   |