

Emdeon Inc.
Form 10-Q
November 08, 2013
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 September 30, 2013

Commission file number 333-182786

EMDEON INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

3055 Lebanon Pike, Suite 1000

Nashville, TN
(Address of Principal Executive Offices)

20-5799664
(I.R.S. Employer

Identification No.)

37214
(Zip Code)

(615) 932-3000

(Registrant's Telephone Number, Including Area Code)

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

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

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

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 November 8, 2013
Common Stock, \$0.01 par value	100

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

Table of Contents

Emdeon Inc.

Table of Contents

<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	2
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	57
<u>Item 4. Controls and Procedures</u>	58
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	58
<u>Item 1A. Risk Factors</u>	58
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 3. Defaults Upon Senior Securities</u>	58
<u>Item 4. Mine Safety Disclosures</u>	59
<u>Item 5. Other Information</u>	59
<u>Item 6. Exhibits</u>	59
<u>Signatures</u>	60
<u>Exhibit Index</u>	61

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

(unaudited and amounts in thousands)

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

(unaudited and amounts in thousands, except share amounts)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in Capital	Earnings (Deficit)	Other Comprehensive Income (Loss)	
Balance at January 1, 2012	100	\$	\$ 1,120,676	\$ (16,693)	\$ (194)	\$ 1,103,789
Equity compensation expense			3,969			3,969
Issuance of shares in connection with equity compensation plans, net of taxes			317			317
Repurchase of Parent common stock			(317)			(317)
Reclassification of liability awards to equity awards			3,675			3,675
Net loss				(68,087)		(68,087)
Foreign currency translation adjustment					107	107
Change in fair value of interest rate swap, net of taxes					(3,821)	(3,821)
Balance at September 30, 2012	100	\$	\$ 1,128,320	\$ (84,780)	\$ (3,908)	\$ 1,039,632
Balance at January 1, 2013	100	\$	\$ 1,130,968	\$ (95,028)	\$ (3,789)	\$ 1,032,151
Equity compensation expense			5,637			5,637
Repurchase of Parent common stock			(250)			(250)
Net loss				(57,988)		(57,988)
Foreign currency translation adjustment					(65)	(65)
Change in fair value of interest rate swap, net of taxes					2,511	2,511
Balance at September 30, 2013	100	\$	\$ 1,136,355	\$ (153,016)	\$ (1,343)	\$ 981,996

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

Edgar Filing: Emdeon Inc. - Form 10-Q

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 and patients of the United States healthcare system. The Company's product and service offerings integrate and automate key business and administrative functions for healthcare payers and healthcare providers throughout the patient encounter, including pre-care patient eligibility and benefits verification and enrollment, clinical information exchange, claims management and adjudication, payment integrity, payment distribution, payment posting and denial management and patient billing and payment processing.

Organization

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

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

2. Basis of Presentation

Principles of Consolidation

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

Reclassifications

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

Recent Accounting Pronouncements

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

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

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

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

4. Business Combinations

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

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

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

	Goold	TC3
Total Consideration Fair Value at Acquisition Date:		
Cash paid at closing	\$ 19,391	\$ 61,351
Contingent consideration	5,495	
Other	(5)	383
	\$ 24,881	\$ 61,734
Allocation of the Consideration Transferred:		
Cash	\$ 1,100	\$ 2,340
Accounts receivable	3,435	2,662
Deferred income tax assets		348
Prepaid expenses and other current assets	647	155
Property and equipment	7,655	10,414
Identifiable intangible assets:		
Tradename		530
Noncompetition agreements	490	1,300
Customer relationships	5,170	18,810
Backlog	440	
Goodwill	14,227	38,634
Accounts payable	(541)	
Accrued expenses	(2,156)	(4,783)
Deferred revenues	(101)	
Current maturities of long-term debt	(218)	

Edgar Filing: Emdeon Inc. - Form 10-Q

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

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

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

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

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

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

5. Goodwill and Intangible Assets

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

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

Edgar Filing: Emdeon Inc. - Form 10-Q

Balance at September 30, 2013	\$ 712,585	\$ 289,812	\$ 315,054	\$ 184,910	\$ 1,502,361
-------------------------------	------------	------------	------------	------------	--------------

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

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

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

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

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

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

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****6. Long-Term Debt**

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

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

	September 30, 2013	December 31, 2012
<i>Senior Credit Facilities</i>		
\$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$16,583 and \$32,426 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 4.21%)	\$ 1,264,908	\$ 1,258,758
\$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate		
<i>Senior Notes</i>		
\$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$7,883 and \$8,506 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.53%)	367,117	366,494
\$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,778 and \$10,393 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.86%)	365,222	364,607
<i>Obligation under data sublicense agreement</i>	26,863	26,863
<i>Other</i>	13,664	287
Less current portion	(22,031)	(17,595)
Long-term debt	\$ 2,015,743	\$ 1,999,414

Senior Credit Facilities

The credit agreement governing the *Senior Credit Facilities* (the *Senior Credit Agreement*) provides that, subject to certain conditions, the Company may request additional tranches of term loans, increase commitments under the *Revolving Facility* or the *Term Loan Facility* or add one or more incremental revolving credit facility tranches (provided that the revolving credit commitments outstanding at any time have no more than three different maturity dates) in an aggregate amount not to exceed (a) \$300,000 plus (b) an unlimited amount at any time, subject to compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00:1.00. Availability of such additional tranches of term loans or revolving credit facilities and/or increased commitments is subject to, among other conditions, the absence of any default under the *Senior Credit Agreement* and the receipt of commitments by existing or additional financial institutions. Proceeds of the *Revolving Facility*, including up to \$30,000 in the form of borrowings on same-day notice, referred to as swingline loans, and up to \$50,000 in the form of letters of credits, are available to provide financing for working capital and general corporate purposes.

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

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.

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

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

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

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

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

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

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 \$38,000 remained payable at September 30, 2013). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

Other

During the nine months ended September 30, 2013, the Company entered into deferred financing arrangements with certain vendors. The obligations were recorded at the present value of the scheduled payments. Such future payments totaled \$14,204 at September 30, 2013.

7. Interest Rate Swap

Risk Management Objective of Using Derivatives

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

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

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$2,575 will be reclassified as an increase to interest expense.

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

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

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

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

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

loss to interest expense

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

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

As of September 30, 2013, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$2,548. If the Company had breached any of these provisions at September 30, 2013, the Company could have been required to settle its obligations under the agreements at this termination value. The Company does not offset any derivative instruments and the derivative instruments are not subject to collateral posting requirements.

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

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

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

The valuation of the Company's derivative financial instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair value of the interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates derived from observable market interest rate curves. Effective January 2013, the Company revised its valuation methodology for derivatives to discount the future expected cash flows using the overnight index swap rate. This change in methodology had no material effect on the Company's unaudited condensed consolidated financial statements for the nine months ended September 30, 2013.

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

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

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

The valuation of the Company's contingent consideration obligations is estimated as the present value of total expected contingent consideration payments which are determined using a Monte Carlo simulation. This analysis reflects the contractual terms of the purchase agreement and utilizes assumptions with regard to future sales, probabilities of achieving such future sales, the timing of expected payments and a discount rate. Significant increases with respect to assumptions as to future sales and probabilities of achieving such future sales would result in a higher fair value measurement while an increase in the discount rate would result in a lower fair value measurement.

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

Assets and Liabilities Measured at Fair Value upon Initial Recognition

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

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

The carrying amounts of cash equivalents and accounts receivable approximate fair value because of their short-term maturities. The fair value of long-term debt is based upon market quotes and trades by investors in partial interests of these instruments.

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

9. Legal Proceedings

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

10. Income Taxes

Income taxes for the nine months ended September 30, 2013 and September 30, 2012 amounted to an income tax benefit of \$26,422 and \$36,364, respectively. The Company's effective tax rate was 31.3% for the nine months ended September 30, 2013 compared to 34.8% during the same period in 2012. The Company's effective tax rate is generally affected by deferred tax expense resulting from differences between the book and income tax basis of its investment in EBS Master LLC (EBS Master), changes in the Company's valuation allowances, changes in apportionment and other factors. In addition, during the nine months ended September 30, 2013, we changed our methodology of estimating state income taxes from a separate state return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

11. Tax Receivable Agreement Obligation to Related Parties

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

In November 2011, H&F and certain current and former members of management exchanged all of their remaining EBS Master Units (EBS Units) for cash and a combination of cash and shares of Parent, respectively, and the former majority owner of the Company assigned its rights under the tax receivable agreements to affiliates of Blackstone (Blackstone, together with H&F and certain current and former members of management are sometimes referred to collectively as the TRA Members). Additionally, effective December 31, 2011, the Company simplified its corporate structure. The tax attributes of the exchange of EBS Units and corporate restructuring are expected to provide the Company with additional cash savings, 85% of which are payable to the TRA Members. Collectively, the Company expects the tax attributes of the above referenced events to result in cumulative payments under the tax receivable agreements of approximately \$361,425. \$144,751 of this amount, which reflected the initial fair value of the tax receivable agreement obligations plus recognized accretion, was reflected as an obligation on the accompanying unaudited condensed consolidated balance sheet at September 30, 2013. The accompanying unaudited condensed consolidated statement of operations for the nine months ended September 30, 2013 and 2012 includes accretion expense of \$18,712 and \$15,104, respectively, related to this obligation.

During the nine months ended September 30, 2013, the Company changed its estimate of the timing and amount of future cash flows attributable to the tax receivable agreements as a result of a change in the Company's effective tax rate, the impact of the April 2013 repricing to the Senior Credit Agreement, the Goold acquisition and routine updates to financial projections. These revised estimates resulted in an increase to pretax net loss of \$6,105 for the nine months ended September 30, 2013.

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

12. Segment Reporting

Effective January 1, 2013, the Company completed an internal reorganization of its reporting structure which resulted in a change in the composition of its operating segments. Additionally, the Company periodically makes other changes to the composition of its operating segments. Prior period segment information is restated to reflect the organizational structure and any other changes made.

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

Payer Services Segment

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

Provider Revenue Cycle Solutions Segment

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

Ambulatory Provider Services Segment

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

Pharmacy Services Segment

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

Other

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Supplemental Condensed Consolidating Financial Information

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

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

	Emdeon Inc.	As of September 30, 2013		Consolidated
		Guarantor Subsidiaries	Consolidating Adjustments	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 722	\$ 60,841	\$	\$ 61,563
Accounts receivable, net of allowance for doubtful accounts		209,039		209,039
Deferred income tax assets		5,578		5,578
Prepaid expenses and other current assets	2,948	26,391		29,339
Total current assets	3,670	301,849		305,519
Property and equipment, net		279,195		279,195
Due from affiliates		64,856	(64,856)	
Investment in consolidated subsidiaries	1,795,024		(1,795,024)	
Goodwill		1,502,361		1,502,361
Intangible assets, net	144,750	1,513,299		1,658,049
Other assets, net	50,853	14,750	(46,065)	19,538
Total assets	\$ 1,994,297	\$ 3,676,310	\$ (1,905,945)	\$ 3,764,662
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$	\$ 8,495	\$	\$ 8,495
Accrued expenses	18,769	99,645		118,414
Deferred revenues		10,222		10,222
Current portion of long-term debt	4,597	17,434		22,031
Total current liabilities	23,366	135,796		159,162
Due to affiliates		64,856	(64,856)	
Long-term debt, excluding current portion	780,382	1,235,361		2,015,743
Deferred income tax liabilities		493,282	(46,065)	447,217
Tax receivable agreement obligations to related parties	143,697			143,697
Other long-term liabilities		16,847		16,847
Commitments and contingencies				
Equity	981,996	1,795,024	(1,795,024)	981,996
Total liabilities and equity	\$ 1,994,297	\$ 3,676,310	\$ (1,905,945)	\$ 3,764,662

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

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

Condensed Consolidating Balance Sheet

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

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

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

Condensed Consolidating Statement of Operations

	Three Months Ended September 30, 2013			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue	\$	\$ 323,906	\$	\$ 323,906
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		197,378		197,378
Development and engineering		7,896		7,896
Sales, marketing, general and administrative	1,997	42,527		44,524
Depreciation and amortization	2,251	44,930		47,181
Accretion	7,112			7,112
Operating income (loss)	(11,360)	31,175		19,815
Equity in earnings of consolidated subsidiaries	(3,766)		3,766	
Interest expense, net	23,579	13,421		37,000
Other	(2,925)	1,879		(1,046)
Income (loss) before income tax provision (benefit)	(28,248)	15,875	(3,766)	(16,139)
Income tax provision (benefit)	(11,983)	12,109		126
Net income (loss)	\$ (16,265)	\$ 3,766	\$ (3,766)	\$ (16,265)

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

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

Condensed Consolidating Statement of Operations

	Three Months Ended September 30, 2012			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue	\$	\$ 297,075	\$	\$ 297,075
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		181,818		181,818
Development and engineering		8,644		8,644
Sales, marketing, general and administrative	2,606	35,028		37,634
Depreciation and amortization	2,251	46,321		48,572
Accretion	2,758			2,758
Operating income (loss)	(7,615)	25,264		17,649
Equity in earnings of consolidated subsidiaries	(5,937)		5,937	
Interest expense, net	23,673	18,225		41,898
Income (loss) before income tax provision (benefit)	(25,351)	7,039	(5,937)	(24,249)
Income tax provision (benefit)	(10,195)	1,102		(9,093)
Net income (loss)	\$ (15,156)	\$ 5,937	\$ (5,937)	\$ (15,156)

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

	Nine Months Ended September 30, 2013			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue	\$	\$ 941,093	\$	\$ 941,093
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		580,501		580,501
Development and engineering		23,263		23,263
Sales, marketing, general and administrative	7,023	119,557		126,580
Depreciation and amortization	6,753	131,190		137,943
Accretion	18,712			18,712
Operating income (loss)	(32,488)	86,582		54,094
Equity in earnings of consolidated subsidiaries	(6,216)		6,216	
Interest expense, net	70,621	45,769		116,390
Loss on extinguishment of debt	485	22,675		23,160
Other	(2,925)	1,879		(1,046)
Income (loss) before income tax provision (benefit)	(94,453)	16,259	(6,216)	(84,410)
Income tax provision (benefit)	(36,465)	10,043		(26,422)
Net income (loss)	\$ (57,988)	\$ 6,216	\$ (6,216)	\$ (57,988)

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

	Nine Months Ended September 30, 2012			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue	\$	\$ 877,577	\$	\$ 877,577
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		534,463		534,463
Development and engineering		26,320		26,320
Sales, marketing, general and administrative	7,261	106,134		113,395
Depreciation and amortization	6,753	133,601		140,354
Accretion	15,104			15,104
Operating income (loss)	(29,118)	77,059		47,941
Equity in earnings of consolidated subsidiaries	1,807		(1,807)	
Interest expense, net	70,524	60,015		130,539
Loss on extinguishment of debt	495	21,358		21,853
Income (loss) before income tax provision (benefit)	(101,944)	(4,314)	1,807	(104,451)
Income tax provision (benefit)	(33,857)	(2,507)		(36,364)
Net income (loss)	\$ (68,087)	\$ (1,807)	\$ 1,807	\$ (68,087)

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)**

	Three Months Ended September 30, 2013			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ (16,265)	\$ 3,766	\$ (3,766)	\$ (16,265)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(1,064)			(1,064)
Foreign currency translation adjustment		35		35
Equity in other comprehensive earnings	35		(35)	
Other comprehensive income (loss)	(1,029)	35	(35)	(1,029)
Total comprehensive income (loss)	\$ (17,294)	\$ 3,801	\$ (3,801)	\$ (17,294)

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)**

	Three Months Ended September 30, 2012			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ (15,156)	\$ 5,937	\$ (5,937)	\$ (15,156)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(1,487)			(1,487)
Foreign currency translation adjustment		(126)		(126)
Equity in other comprehensive earnings	(126)		126	
Other comprehensive income (loss)	(1,613)	(126)	126	(1,613)
Total comprehensive income (loss)	\$ (16,769)	\$ 5,811	\$ (5,811)	\$ (16,769)

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)**

	Nine Months Ended September 30, 2013			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ (57,988)	\$ 6,216	\$ (6,216)	\$ (57,988)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	2,511			2,511
Foreign currency translation adjustment		(65)		(65)
Equity in other comprehensive earnings	(65)		65	
Other comprehensive income (loss)	2,446	(65)	65	2,446
Total comprehensive income (loss)	\$ (55,542)	\$ 6,151	\$ (6,151)	\$ (55,542)

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)**

	Nine Months Ended September 30, 2012			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ (68,087)	\$ (1,807)	\$ 1,807	\$ (68,087)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(3,821)			(3,821)
Foreign currency translation adjustment		107		107
Equity in other comprehensive earnings	107		(107)	
Other comprehensive income (loss)	(3,714)	107	(107)	(3,714)
Total comprehensive income (loss)	\$ (71,801)	\$ (1,700)	\$ 1,700	\$ (71,801)

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

	Nine Months Ended September 30, 2013			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities				
Net income (loss)	\$ (57,988)	\$ 6,216	\$ (6,216)	\$ (57,988)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	6,753	131,190		137,943
Accretion expense	18,712			18,712
Equity compensation expense	178	5,459		5,637
Deferred income tax benefit	(33,425)	5,541		(27,884)
Amortization of debt discount and issuance costs	1,865	4,720		6,585
Equity in earnings of consolidated subsidiaries	(6,216)		6,216	
Change in contingent consideration		1,879		1,879
Gain on sale of cost method investment	(2,925)			(2,925)
Loss on extinguishment of debt	478	22,350		22,828
Other	(819)	1,887		1,068
Changes in operating assets and liabilities:				
Accounts receivable		(15,582)		(15,582)
Prepaid expenses and other	(4,732)	2,928		(1,804)
Accounts payable		685		685
Accrued expenses, deferred revenue, and other liabilities	14,509	6,476		20,985
Tax receivable agreement obligations to related parties	(103)			(103)
Due to/from affiliates	1,923	(1,923)		
Net cash provided by (used in) operating activities	(61,790)	171,826		110,036
Investing activities				
Purchases of property and equipment		(52,806)		(52,806)
Payments for acquisitions, net of cash acquired		(18,291)		(18,291)
Proceeds from sale of cost method investment	5,820			5,820
Investment in subsidiaries, net	56,149		(56,149)	
Net cash provided by (used in) investing activities	61,969	(71,097)	(56,149)	(65,277)
Financing activities				
Distributions to Emdeon Inc., net		(56,149)	56,149	
Debt principal payments	(211)	(9,481)		(9,692)
Payment of loan costs		(2,178)		(2,178)
Repayment of deferred financing arrangements		(2,103)		(2,103)
Repurchase of Parent common stock		(250)		(250)
Other		(736)		(736)
Net cash provided by (used in) financing activities	(211)	(70,897)	56,149	(14,959)

Edgar Filing: Emdeon Inc. - Form 10-Q

Net increase in cash and cash equivalents	(32)	29,832		29,800
Cash and cash equivalents at beginning of period	754	31,009		31,763
Cash and cash equivalents at end of period	\$ 722	\$ 60,841	\$	\$ 61,563

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

	Nine Months Ended September 30, 2012			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities				
Net income (loss)	\$ (68,087)	\$ (1,807)	\$ 1,807	\$ (68,087)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	6,753	133,601		140,354
Accretion expense	15,104			15,104
Equity compensation expense	7	3,962		3,969
Deferred income tax benefit	(33,857)	(3,512)		(37,369)
Amortization of debt discount and issuance costs	1,674	5,939		7,613
Equity in earnings of consolidated subsidiaries	1,807		(1,807)	
Loss on extinguishment of debt	419	17,874		18,293
Other		1,927		1,927
Changes in operating assets and liabilities:				
Accounts receivable		(5,547)		(5,547)
Prepaid expenses and other	(31)	(3,655)		(3,686)
Accounts payable		5,153		5,153
Accrued expenses, deferred revenue, and other liabilities	13,375	(21,819)		(8,444)
Tax receivable agreement obligations to related parties	(114)			(114)
Due to/from affiliates	4,333	(4,333)		
Net cash provided by (used in) operating activities	(58,617)	127,783		69,166
Investing activities				
Purchases of property and equipment		(40,949)		(40,949)
Payments for acquisitions, net of cash acquired		(59,011)		(59,011)
Investment in subsidiaries, net	69,758		(69,758)	
Net cash provided by (used in) investing activities	69,758	(99,960)	(69,758)	(99,960)
Financing activities				
Distributions to Emdeon Inc., net		(69,758)	69,758	
Proceeds from Term Loan Facility	(207)	70,558		70,351
Debt principal payments	(209)	(9,356)		(9,565)
Payments on Revolving Facility		(15,000)		(15,000)
Payment of loan costs	(34)	(2,026)		(2,060)
Repurchase of Parent common stock		(317)		(317)
Other		(203)		(203)
Net cash provided by (used in) financing activities	(450)	(26,102)	69,758	43,206
Net increase (decrease) in cash and cash equivalents	10,691	1,721		12,412

Edgar Filing: Emdeon Inc. - Form 10-Q

Cash and cash equivalents at beginning of period	572	37,353		37,925
Cash and cash equivalents at end of period	\$ 11,263	\$ 39,074	\$	\$ 50,337

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, 2012 (Form 10-K) on file with the Securities and Exchange Commission (SEC).

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

Forward-Looking Statements

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

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

Overview

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

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

Table of Contents

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

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

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

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

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

Table of Contents

through expanded coverage of uninsured individuals, reduced federal healthcare program spending, increased efforts to link federal healthcare program payments to quality and efficiency and insurance market reforms. Also, changes in federal and state reimbursement patterns and rates can impact the revenues in certain of our business lines, particularly our government program eligibility and enrollment solutions. We are unable to predict 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 continued high unemployment rates as a result of recent adverse economic conditions, also could affect the frequency and nature of our customers' healthcare transactional activity. The impact of such changes could impact our revenues, cost of operations and infrastructure expenses and thereby affect our results of operations and the way we operate our business. For example, an increase in the United States population, if such increase is accompanied by an increase in the United States population that has health benefits, or the aging of the United States population, which requires an overall increased need for healthcare services, may result in an increase in our transaction volumes which, in turn, may increase our revenues and cost of operations. Alternatively, a recurrence of the recent general economic downturn, which reduces the number of discretionary health procedures by patients, or a persistent high unemployment rate, which lessens healthcare utilization, may decrease or offset other growth in our transaction volumes, which, in turn, may adversely impact our revenues and cost of operations.

Recent Developments

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

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

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

Our Revenues and Expenses

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

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

Table of Contents

The largest component of our cost of operations is postage, which is incurred in our patient billing and payment and payment distribution services businesses and which is also a component of our revenue in those businesses. Our postage costs increase as our patient billing and payment services volumes increase and also when the United States Postal Service (USPS) increases postage rates. Postage rate increases, while generally billed as pass-through costs to our customers, affect our cost of operations as a percentage of revenue. In prior years, we have offset the impact of postage rate increases on cost of operations as a percentage of revenue through cost reductions from efficiency measures, including data communication expense reductions and production efficiencies. Though we plan to implement additional efficiency measures, we may not be able to offset the impact of postage rate increases in the future and, as a result, cost of operations as a percentage of revenue may increase if postage rate increases continue. Although the USPS historically has increased postage rates annually in most recent years, including in January 2013, and has announced a planned increase for 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 exclusive or other comprehensive management services agreements we execute with payers, the associated rate structure with our payer customers, the success of our direct sales efforts to providers and the extent to which direct connections to payers are developed by our channel partners.

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

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

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

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

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

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

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

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

Table of Contents**Significant Items Affecting Comparability**

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

Acquisitions and Divestitures

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

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

Income Taxes

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

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Statutory United States federal tax rate	35.0%	35.0%
State income taxes (net of federal benefit)	(3.5)	0.3
Other	(1.6)	(0.5)
Change in valuation allowance	1.4	
Effective income tax rate	31.3%	34.8%

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

Change in Valuation Allowance We record valuation allowances or reverse existing valuation allowances related to assumed future income tax benefits depending on factors and circumstances related to our business. During 2010, we recognized a capital loss for tax purposes, the benefit of which could only be recognized upon recognition of a capital gain. During the nine months ended September 30, 2013, we recognized a capital gain associated with the sale of an equity investment that resulted in a partial reversal of our valuation allowance.

Stock-Based and Equity Compensation Expense

Beagle Parent Corp. (Parent) has granted equity-based awards to certain employees and directors to purchase shares of Parent common stock. In connection with these equity-based award grants, we incurred equity compensation expense of \$2.1 million and \$5.6 million for the three and

Edgar Filing: Emdeon Inc. - Form 10-Q

nine months ended September 30, 2013 and \$4.0 million for both the three and nine months ended September 30, 2012.

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 Senior Credit Agreement. In April 2012, we amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80.0 million of additional term loans for general corporate purposes, including acquisitions. As a result of these amendments, the LIBOR-based interest rate applicable to the Senior Credit Facilities was generally reduced by 175 basis points. The Senior Credit Agreement was further amended in April 2013 to further reduce the LIBOR-based interest rate by an additional 125 basis points, and also to modify certain financial covenants.

Critical Accounting Estimates

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

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

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

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

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

Table of Contents**Results of Operations**

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

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$ 323,906	100.0%	\$ 297,075	100.0%	\$ 941,093	100.0%	\$ 877,577	100.0%
Cost and expenses:								
Cost of operations (exclusive of depreciation and amortization below)	197,378	60.9	181,818	61.2	580,501	61.7	534,463	60.9
Development and engineering	7,896	2.4	8,644	2.9	23,263	2.5	26,320	3.0
Sales, marketing, general and administrative	44,524	13.7	37,634	12.7	126,580	13.5	113,395	12.9
Depreciation and amortization	47,181	14.6	48,572	16.4	137,943	14.7	140,354	16.0
Accretion	7,112	2.2	2,758	0.9	18,712	2.0	15,104	1.7
Operating income	19,815	6.1	17,649	5.9	54,094	5.7	47,941	5.5
Interest expense, net	37,000	11.4	41,898	14.1	116,390	12.4	130,539	14.9
Loss on extinguishment of debt					23,160	2.5	21,853	2.5
Other	(1,046)	(0.3)			(1,046)	(0.1)		
Income (loss) before income tax provision (benefit)	(16,139)	(5.0)	(24,249)	(8.2)	(84,410)	(9.0)	(104,451)	(11.9)
Income tax provision (benefit)	126		(9,093)	(3.1)	(26,422)	(2.8)	(36,364)	(4.1)
Net income (loss)	\$ (16,265)	(5.0)%	\$ (15,156)	(5.1)%	\$ (57,988)	(6.2)%	\$ (68,087)	(7.8)%

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

Our total revenues were \$323.9 million for the three months ended September 30, 2013 as compared to \$297.1 million for the three months ended September 30, 2012, an increase of \$26.8 million, or 9.0%.

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

Cost of Operations

Our total cost of operations was \$197.4 million for the three months ended September 30, 2013 as compared to \$181.8 million for the three months ended September 30, 2012, an increase of \$15.6 million, or 8.6%. As a percentage of revenue, our cost of operations was 60.9% for the three months ended September 30, 2013 as compared to 61.2% the three months ended September 30, 2012. The increase in our cost of operations is primarily due to volume growth, including the impact of the United States postage rate increase effective in January 2013, the inclusion of the acquired TC3 and Goold businesses and increased strategic growth initiative and non-employee 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 \$7.9 million for the three months ended September 30, 2013 as compared to \$8.6 million for the three months ended September 30, 2012, a decrease of \$0.7 million, or 8.7%. The decrease in our development and engineering expense is primarily due to labor utilization and other efficiencies.

Sales, Marketing, General and Administrative Expense

Our total sales, marketing, general and administrative expense was \$44.5 million for the three months ended September 30, 2013 as compared to \$37.6 million for the three months ended September 30, 2012, an increase of \$6.9 million, or 18.3%. The increase in our sales, marketing, general and administrative expense was primarily due to increased severance costs related to the departure of our former chief executive officer, the inclusion of the acquired TC3 and Goold businesses and increased strategic growth initiative costs for the three months ended September 30, 2013.

Depreciation and Amortization Expense

Our depreciation and amortization expense was \$47.2 million for the three months ended September 30, 2013 as compared to \$48.6 million for the three months ended September 30, 2012, a decrease of \$1.4 million, or 2.9%. This decrease was primarily due to the full amortization of our backlog intangible assets that were initially recorded in connection with the 2011 Transactions, partially offset by additional expense attribute to increased capital expenditures and acquisition activity.

Accretion Expense

Our accretion expense was \$7.1 million for the three months ended September 30, 2013 as compared to \$2.8 million for the three months ended September 30, 2012. The amount recognized as accretion expense can vary significantly from period to period due to changes in estimates related to the amount or timing of our tax receivable agreement obligation payments. Such changes can result from a variety of factors, including changes in tax rates and the expected timing of prior net operating loss utilization, which can be affected by business combinations, changes in leverage, operations or other factors.

Table of Contents**Interest Expense**

Our interest expense was \$37.0 million for the three months ended September 30, 2013 as compared to \$41.9 million for the three months ended September 30, 2012, a decrease of \$4.9 million, or 11.7%. Interest expense for the three months ended September 30, 2013 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 provision was \$0.1 million for the three months ended September 30, 2013 as compared to an income tax benefit of \$9.1 million for the three months ended September 30, 2012. Our effective tax rate was 0.8% for the three months ended September 30, 2013 as compared to 37.5% for the three months ended September 30, 2012. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to an increase in our state tax rates and a change in our methodology of estimating state income taxes from a separate state return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

Segment Revenues and Adjusted EBITDA

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

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Claims management	\$ 77,092	\$ 64,557	\$ 12,535
Payment distribution services	64,245	63,330	915
Intersegment revenue	1,272	1,211	61
	\$ 142,609	\$ 129,098	\$ 13,511
Adjusted EBITDA	\$ 59,145	\$ 49,973	\$ 9,172

Claims management revenue for the three months ended September 30, 2013 increased by \$12.5 million, or 19.4%, 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 September 30, 2013 increased by \$0.9 million, or 1.4%, as compared to the prior year period. This increase was primarily driven by new sales and implementations and the impact of the United States postage rate increase effective in January 2013, partially offset by customer attrition.

Payer services adjusted EBITDA for the three months ended September 30, 2013 increased by \$9.2 million, or 18.4%, as compared to the prior year period. As a percentage of revenue, payer services adjusted EBITDA was 41.5% for the three months ended September 30, 2013 as compared to 38.7% for the three months ended September 30, 2012. The increase in payer services adjusted EBITDA and as a percentage of revenue was primarily due to the impact of the revenue items described above including changes in revenue mix, partially offset by increased strategic growth initiative costs.

Provider Revenue Cycle Solutions

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Revenue cycle technology	\$ 30,222	\$ 27,096	\$ 3,126
Revenue cycle services	31,172	28,665	2,507
Intersegment revenue	353	205	148
	\$ 61,747	\$ 55,966	\$ 5,781
Adjusted EBITDA	\$ 25,282	\$ 26,399	\$ (1,117)

Revenue cycle technology revenue for the three months ended September 30, 2013 increased by \$3.1 million, or 11.5%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Revenue cycle services revenue for the three months ended September 30, 2013 increased by \$2.5 million, or 8.7%, as compared to the prior year period primarily due to new sales and implementations, partially offset by 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.

Provider revenue cycle solutions adjusted EBITDA for the three months ended September 30, 2013 decreased by \$1.1 million, or 4.2%, as compared to the prior year period. As a percentage of revenue, provider revenue cycle solutions adjusted EBITDA was 40.9% for the three months ended September 30, 2013 as compared to 47.2% for the three months ended September 30, 2012. 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**Ambulatory Provider Services**

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Patient billing and payment services	\$ 63,264	\$ 63,817	\$ (553)
Physician services	19,467	18,279	1,188
Dental	8,080	7,828	252
	\$ 90,811	\$ 89,924	\$ 887
Adjusted EBITDA	\$ 23,443	\$ 24,471	\$ (1,028)

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

Physician services revenue for the three months ended September 30, 2013 increased by \$1.2 million, or 6.5%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

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

Ambulatory provider services adjusted EBITDA for the three months ended September 30, 2013 decreased by \$1.0 million, or 4.2%, as compared to the prior year period. As a percentage of revenue, ambulatory provider services adjusted EBITDA was 25.8% for the three months ended September 30, 2013 as compared to 27.2% for the three months ended September 30, 2012. The decrease in ambulatory provider services adjusted EBITDA and as a percentage of revenue was primarily due to the impact of the U.S. postage rate increase effective in January 2013 and increased labor and strategic growth initiative costs.

Pharmacy Services

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Pharmacy services	\$ 30,364	\$ 23,503	\$ 6,861
Intersegment revenue	77	90	(13)
	\$ 30,441	\$ 23,593	\$ 6,848
Adjusted EBITDA	\$ 13,179	\$ 11,823	\$ 1,356

Pharmacy services revenue for the three months ended September 30, 2013 increased by \$6.9 million, or 29.2%, as compared to the prior year period. Pharmacy services revenue for the three months ended September 30, 2013 included \$5.2 million related to the Goold acquisition. Excluding this revenue, pharmacy services revenue for the three months ended September 30, 2013 increased by \$1.6 million, or 6.9%, as compared to the prior year period. This increase was primarily due to new sales and implementations.

Edgar Filing: Emdeon Inc. - Form 10-Q

Pharmacy services adjusted EBITDA for the three months ended September 30, 2013 increased by \$1.4 million, or 11.5%, 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 43.3% for the three months ended September 30, 2013 as compared to 50.1% for the prior year period. The decrease in pharmacy services adjusted EBITDA as a percentage of revenue is primarily due to increased strategic growth initiative and channel partner costs and changes in revenue mix, including the impact of the Goold acquisition.

Table of Contents**Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012*****Revenues***

Our total revenues were \$941.1 million for the nine months ended September 30, 2013 as compared to \$877.6 million for the nine months ended September 30, 2012, an increase of \$63.5 million, or 7.2%.

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

Cost of Operations

Our total cost of operations was \$580.5 million for the nine months ended September 30, 2013 as compared to \$534.5 million for the nine months ended September 30, 2012, an increase of \$46.0 million, or 8.6%. As a percentage of revenue, our cost of operations was 61.7% for the nine months ended September 30, 2013 as compared to 60.9% for the nine months ended September 30, 2012. The increase in our cost of operations and as a percentage of revenue is primarily due to volume growth, including the impact of the United States postage rate increases effective in April 2012 and January 2013, the inclusion of the acquired TC3 and Goold businesses and increased strategic growth initiative, acquisition-related and non-employee labor costs.

Development and Engineering Expense

Our total development and engineering expense was \$23.3 million for the nine months ended September 30, 2013 as compared to \$26.3 million for the nine months ended September 30, 2012, a decrease of \$3.1 million, or 11.6%. The decrease in our development and engineering expense is primarily due to labor utilization and other efficiencies.

Sales, Marketing, General and Administrative Expense

Our total sales, marketing, general and administrative expense was \$126.6 million for the nine months ended September 30, 2013 as compared to \$113.4 million for the nine months ended September 30, 2012, an increase of \$13.2 million, or 11.6%. The increase in our sales, marketing, general and administrative expense was primarily due to increased equity compensation expense, increased severance costs related to the departure of our former chief executive officer, the inclusion of the acquired TC3 and Goold businesses, the disposal of a legacy product and increased strategic growth initiative costs for the nine months ended September 30, 2013, partially offset by a reduction in fees associated with the April 2012 and April 2013 amendments of the Senior Credit Facilities, other professional fees and software maintenance costs.

Depreciation and Amortization Expense

Our depreciation and amortization expense was \$137.9 million for the nine months ended September 30, 2013 as compared to \$140.4 million for the nine months ended September 30, 2012, a decrease of \$2.4 million, or 1.7%. This decrease was primarily due to the full amortization of our backlog intangible assets that were initially recorded in connection with the 2011 Transactions, partially offset by additional expense attributable to increased capital expenditures and acquisition activity.

Accretion Expense

Our accretion expense was \$18.7 million for the nine months ended September 30, 2013 as compared to \$15.1 million for the nine months ended September 30, 2012. The amount recognized as accretion expense can vary significantly from period to period due to changes in estimates related to the amount or timing of our tax receivable agreement obligation payments. Such changes can result from a variety of factors, including changes in tax rates and the expected timing of prior net operating loss utilization, which can be affected by business combinations, changes in leverage, operations or other factors.

Table of Contents**Interest Expense**

Our interest expense was \$116.4 million for the nine months ended September 30, 2013 as compared to \$130.5 million for the nine months ended September 30, 2012, a decrease of \$14.1 million, or 10.8%. Interest expense for the nine months ended September 30, 2013 includes the effect of lower interest rates on the Senior Credit Facilities as a result of the April 2012 and April 2013 repricing transactions, partially offset by additional borrowings in connection with the TC3 acquisition.

Income Taxes

Our income tax benefit was \$26.4 million for the nine months ended September 30, 2013 as compared to an income tax benefit of \$36.4 million for the nine months ended September 30, 2012. Our effective tax rate was 31.3% for the nine months ended September 30, 2013 as compared to 34.8% for the nine months ended September 30, 2012. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to an increase in state tax rates and a change in methodology of estimating state income taxes from a separate return basis to, where permitted by the state taxing authorities, a consolidated state return basis.

Segment Revenues and Adjusted EBITDA**Payer Services**

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Claims management	\$ 212,242	\$ 179,519	\$ 32,723
Payment distribution services	195,129	191,125	4,004
Intersegment revenue	3,385	3,117	268
	\$ 410,756	\$ 373,761	\$ 36,995
Adjusted EBITDA	\$ 164,790	\$ 149,895	\$ 14,895

Claims management revenue for the nine months ended September 30, 2013 increased by \$32.7 million, or 18.2%, as compared to the prior year period. Claims management revenue for the nine months ended September 30, 2013 included \$34.8 million related to the TC3 acquisition as compared to \$15.6 in the prior year period. Excluding this revenue, claims management revenue for the nine months ended September 30, 2013 increased by \$13.5 million, or 8.2%, as compared to the prior year period. This increase was primarily due to new sales and implementations, partially offset by the impact of market pricing pressures on our transaction rates.

Payment distribution services revenues for the nine months ended September 30, 2013 increased by \$4.0 million, or 2.1%, as compared to the prior year period. This increase was primarily driven by new sales and implementations and the impact of the United States postage rate increases effective in April 2012 and January 2013, partially offset by customer attrition.

Payer services adjusted EBITDA for the nine months ended September 30, 2013 increased by \$14.9 million, or 9.9%, as compared to the prior year period. As a percentage of revenue, payer services adjusted EBITDA was 40.1% for both the nine months ended September 30, 2013 and 2012. The increase in payer services adjusted EBITDA was primarily due to the impact of the revenue items described above, including the TC3 acquisition, partially offset by increased strategic growth initiative costs.

Table of Contents**Provider Revenue Cycle Solutions**

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Revenue cycle technology	\$ 89,499	\$ 80,495	\$ 9,004
Revenue cycle services	92,273	86,034	6,239
Intersegment revenue	1,014	643	371
	\$ 182,786	\$ 167,172	\$ 15,614
 Adjusted EBITDA	 \$ 74,703	 \$ 78,277	 \$ (3,574)

Revenue cycle technology revenue for the nine months ended September 30, 2013 increased by \$9.0 million, or 11.2%, 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 nine months ended September 30, 2013 increased by \$6.2 million, or 7.3%, as compared to the prior year period primarily due to new sales and implementations, partially offset by 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.

Provider revenue cycle solutions adjusted EBITDA for the nine months ended September 30, 2013 decreased by \$3.6 million, or 4.6%, as compared to the prior year period. As a percentage of revenue, provider revenue cycle solutions adjusted EBITDA was 40.9% for the nine months ended September 30, 2013 as compared to 46.8% for the nine months ended September 30, 2012. 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.

Ambulatory Provider Services

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Patient billing and payment services	\$ 190,410	\$ 191,191	\$ (781)
Physician services	56,719	55,178	1,541
Dental	24,491	24,028	463
	\$ 271,620	\$ 270,397	\$ 1,223
 Adjusted EBITDA	 \$ 71,097	 \$ 74,061	 \$ (2,964)

Patient billing and payment services revenue for the nine months ended September 30, 2013 decreased by \$0.8 million, or 0.4%, as compared to the prior year period primarily due to customer attrition and lower volumes, partially offset by new sales and implementations and the impact of the United States postage rate increases effective in April 2012 and January 2013.

Edgar Filing: Emdeon Inc. - Form 10-Q

Physician services revenue for the nine months ended September 30, 2013 increased by \$1.5 million, or 2.8%, as compared to the prior year period primarily due to new sales and implementations, partially offset by customer attrition.

Table of Contents

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

Ambulatory provider services adjusted EBITDA for the nine months ended September 30, 2013 decreased by \$3.0 million, or 4.0%, as compared to the prior year period. As a percentage of revenue, ambulatory provider services adjusted EBITDA was 26.2% for the nine months ended September 30, 2013 as compared to 27.4% for the nine months ended September 30, 2012. The decrease in ambulatory provider services adjusted EBITDA and as a percentage of revenue was primarily due to the impact of the U.S. postage rate increases effective in April 2012 and January 2013 and increased labor and strategic growth initiative costs.

Pharmacy Services

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

	September 30, 2013	September 30, 2012	\$ Change
Revenue:			
Pharmacy services	\$ 80,330	\$ 70,007	\$ 10,323
Intersegment revenue	256	270	(14)
	\$ 80,586	\$ 70,277	\$ 10,309
Adjusted EBITDA	\$ 37,166	\$ 35,406	\$ 1,760

Pharmacy services revenue for the nine months ended September 30, 2013 increased by \$10.3 million, or 14.7%, as compared to the prior year period. Pharmacy services revenue for the nine months ended September 30, 2013 included \$6.6 million related to the Goold acquisition. Excluding this revenue, pharmacy services revenue for the nine months ended September 30, 2013 increased by \$3.8 million, or 5.3%, as compared to the prior year period. This increase was primarily due to new sales and implementations.

Pharmacy services adjusted EBITDA for the nine months ended September 30, 2013 increased by \$1.8 million, or 5.0%, 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 46.1% for the three months ended September 30, 2013 as compared to 50.4% for the three months ended September 30, 2012. The decrease as a percentage of revenue was primarily due to increased strategic growth initiative and channel partner costs and the impact of the Goold acquisition, partially offset by the impact of the revenue items discussed above.

Liquidity and Capital Resources**General**

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

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

Table of Contents

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

Cash Flows

Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2013 was \$110.0 million as compared to \$69.2 million for nine months ended September 30, 2012. The \$40.8 million increase is primarily due to business growth, the timing and reduction of interest payments under our Senior Credit Facilities and the timing of collections and disbursements.

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

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2013 was \$65.3 million as compared to \$100.0 million for the nine months ended September 30, 2012. Cash used in investing activities for each of the nine months ended September 30, 2013 and 2012 consisted of capital expenditures for property and equipment and cash consideration paid for acquisitions. In addition, the Company received proceeds of \$5.8 million during the nine months ended September 30, 2013 related to the sale of its equity interest in a cost method investment.

Financing Activities

Cash used in financing activities for the nine months ended September 30, 2013 was \$15.0 million as compared to cash provided by financing activities of \$43.2 million for the nine months ended September 30, 2012. Cash used in financing activities for the nine months ended September 30, 2013 primarily consisted of principal payments under our Senior Credit Facilities and deferred financing arrangements. Cash provided by financing activities for the nine months ended September 30, 2012 primarily consisted of net proceeds of additional term loans received in connection with the April 2012 amendment of our Senior Credit Agreement, partially offset by principal payments under our Senior Credit Facilities.

Table of Contents**Long-term Debt**

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

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

	September 30, 2013	December 31, 2012
<i>Senior Credit Facilities</i>		
\$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$16,583 and \$32,426 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 4.21%)	\$ 1,264,908	\$ 1,258,758
\$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate		
<i>Senior Notes</i>		
\$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$7,883 and \$8,506 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.53%)	367,117	366,494
\$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$9,778 and \$10,393 at September 30, 2013 and December 31, 2012, respectively (effective interest rate of 11.86%)	365,222	364,607
<i>Obligation under data sublicense agreement</i>	26,863	26,863
<i>Other</i>	13,664	287
Less current portion	(22,031)	(17,595)
Long-term debt	\$ 2,015,743	\$ 1,999,414

Senior Credit Facilities

The 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).

Table of Contents

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

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

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

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

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

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

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

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;

Table of Contents

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of subsidiaries;

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

alter the business of the Company;

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with affiliates; and

enter into agreements limiting dividends and distributions of certain subsidiaries.

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

Senior Notes

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

We may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at any time on or after December 31, 2015 at the applicable redemption price, plus accrued and unpaid interest. In addition, at any time prior to December 31, 2014, we may, at our option and on one or more occasions, redeem up to 35% of the aggregate principal amount of the 2019 Notes or the 2020 Notes, at a redemption price equal to 100% of the aggregate principal amount, plus a premium equal to the stated interest rate on the 2019 Notes or the 2020 Notes, respectively, plus accrued and unpaid interest with the net cash proceeds of certain equity offerings; provided that at least 50% of the sum of the aggregate principal amount of the 2019 Notes or 2020 Notes, respectively, originally issued (including any additional notes) remain outstanding immediately after such redemption and the redemption occurs within 180 days of the equity offering. At any time prior to December 31, 2015, we may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at our option and on one or more occasions, at a redemption price equal to 100% of the principal amount, plus an applicable premium and accrued and unpaid interest. If we experience specific kinds of changes in control, we must offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

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

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:

Edgar Filing: Emdeon Inc. - Form 10-Q

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

incur additional indebtedness or issue certain capital stock;

incur certain liens;

make investments, loans, advances and acquisitions;

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

prepay subordinated debt;

engage in certain transactions with our affiliates; and

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

Table of Contents

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

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of September 30, 2013, we had outstanding borrowings of \$1,281.5 million under the Senior Credit Agreement. As of September 30, 2013, the LIBOR-based interest rate on the Term Loan Facility was LIBOR plus 2.50% and the LIBOR-based interest rate on the Revolving Facility was LIBOR plus 2.50%. The Term Loan Facility is subject to a LIBOR floor of 1.25% and there is no LIBOR floor on the Revolving Facility.

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.

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 September 30, 2013, our interest rate swap agreements were designated as a cash flow hedge so that changes in the fair market value of the interest rate swap agreements were included within other comprehensive income.

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

Table of Contents

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 September 30, 2013. Based upon that evaluation, our CEO and CFO concluded that, as of September 30, 2013, our disclosure controls and procedures were effective in causing material information relating to us (including our consolidated subsidiaries) to be recorded, processed, summarized and reported by management on a timely basis and to ensure the quality and timeliness of our public disclosures with SEC disclosure obligations.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

Table of Contents

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.

EMDEON INC.

Date: November 8, 2013

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

Date: November 8, 2013

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

Table of Contents

Exhibit Index

Exhibit No.	
4.1	2019 Notes Supplemental Indenture, dated as of August 8, 2013, between Goold Health Systems and Wilmington Trust, National Association, as trustee (filed herewith).
4.2	2020 Notes Supplemental Indenture, dated as of August 8, 2013, between Goold Health Systems and Wilmington Trust, National Association, as trustee (filed herewith).
10.1	Employment Agreement, dated September 30, 2013, among Neil E. de Crescenzo and Emdeon Business Services LLC (filed herewith).
10.2	Separation Agreement and General Release, dated October 4, 2013, among George I. Lazenby IV and Emdeon Business Services LLC (filed herewith).
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document