Emdeon Inc.
Form 10-Q
August 12, 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 June 30, 2013

Commission file number 333-182786

EMDEON INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**20-5799664** **(I.R.S. Employer** **Identification No.)**
3055 Lebanon Pike, Suite 1000	
Nashville, TN **(Address of Principal Executive Offices)**	**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 x*

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 x 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):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (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 x

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

Class	Outstanding as of August 8, 2013
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.

Emdeon Inc.

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

2

Table of Contents

Emdeon Inc.

Condensed Consolidated Balance Sheets

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of Contents

Emdeon Inc.

Condensed Consolidated Statements of Operations

(unaudited and amounts in thousands)

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

See accompanying notes to unaudited condensed consolidated financial statements.

4

Table of Contents

Emdeon Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited and amounts in thousands)

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Emdeon Inc.

Condensed Consolidated Statements of Equity

(unaudited and amounts in thousands, except share amounts)

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Emdeon Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited and amounts in thousands)

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

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

Other long-term liabilities		(84)
Total consideration transferred	$ 24,407	$ 61,734

Acquisition costs in sales, marketing, general and administrative expense:		
For the three months ended June 30, 2013	$ 254	$
For the three months ended June 30, 2012	$	$ 182
For the six months ended June 30, 2013	$ 258	$
For the six months ended June 30, 2012	$	$ 513

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

	Goold	TC3
Other Information:		
Gross contractual accounts receivable	$ 3,505	$ 2,943
Amount not expected to be collected	$	$ 281
Goodwill expected to be deductible for tax purposes	$	$

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

5. Goodwill and Intangible Assets

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

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

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

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

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

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

6. Long-Term Debt

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

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

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

Senior Credit Facilities

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

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

- incur additional indebtedness or guarantees;
- incur liens;
- make investments, loans and acquisitions;
- consolidate or merge;
- sell assets, including capital stock of subsidiaries;
- pay dividends on capital stock or redeem, repurchase or retire capital stock of the Company or any restricted subsidiary;
- alter the business of the Company;
- amend, prepay, redeem or purchase subordinated debt;
- engage in transactions with affiliates; and

enter into agreements limiting dividends and distributions of certain subsidiaries.

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

Senior Notes

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

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

- pay dividends on capital stock or redeem, repurchase or retire capital stock;
- incur additional indebtedness or issue certain capital stock;
- incur certain liens;
- make investments, loans, advances and acquisitions;
- consolidate, merge or transfer all or substantially all of their assets and the assets of their subsidiaries;
- prepay subordinated debt;
- engage in certain transactions with affiliates; and
- enter into agreements restricting the subsidiaries ability to pay dividends.

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

Obligation Under Data Sublicense Agreement

In October 2009 and April 2010, the Company acquired certain additional rights to specified uses of its data from the former owner of the Company s business, in order to broaden the Company s ability to pursue business intelligence and data analytics solutions for payers and providers. The Company previously licensed exclusive rights to this data to the former owner of the Company s business. In connection with these data rights acquisitions, the Company recorded amortizable intangible assets and corresponding obligations at inception based on the present value of the scheduled annual payments through 2018, which totaled $65,000 in the aggregate (approximately $38,000 remained payable at June 30, 2013). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

Other

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

7. Interest Rate Swap

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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

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

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

Credit Risk-related Contingent Features

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

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

8. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

Total	$	(6,023)	$		$	(136)	$	(5,887)

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

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

Assets and Liabilities Measured at Fair Value upon Initial Recognition

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

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

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

9. Legal Proceedings

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

10. Income Taxes

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

11. Tax Receivable Agreement Obligation to Related Parties

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

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

18

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

12. Segment Reporting

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

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

Payer Services Segment

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

Provider Revenue Cycle Solutions Segment

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

Ambulatory Provider Services Segment

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

13. Accumulated Other Comprehensive Income (Loss)

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

	Foreign 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	(99)		(99)
Change associated with current period hedging		2,930	2,930
Reclassification into earnings		645	645
Balance at June 30, 2013	$ (226)	$ (87)	$ (313)

14. Supplemental Condensed Consolidating Financial Information

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

Table of Contents

Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

Condensed Consolidating Balance Sheet

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

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				