

Emdeon Inc.
Form 10-Q
November 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

Commission file number 333-182786

EMDEON INC.

(Exact Name of Registrant as Specified in its Charter)

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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

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):

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, 2012
Common Stock, \$0.01 par value	100

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 50,337	\$ 37,925
Accounts receivable, net of allowance for doubtful accounts of \$4,276 and \$1,201 at September 30, 2012 and December 31, 2011, respectively	197,169	188,960
Deferred income tax assets	4,772	5,862
Prepaid expenses and other current assets	20,914	16,926
Total current assets	273,192	249,673
Property and equipment, net	268,381	277,768
Goodwill	1,481,951	1,443,574
Intangible assets, net	1,757,783	1,821,897
Other assets, net	30,797	39,403
Total assets	\$ 3,812,104	\$ 3,832,315
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 13,567	\$ 8,827
Accrued expenses	119,461	132,096
Deferred revenues	8,967	5,561
Current portion of long-term debt	16,805	16,034
Total current liabilities	158,800	162,518
Long-term debt, excluding current portion	2,005,368	1,945,074
Deferred income tax liabilities	469,578	502,044
Tax receivable agreement obligations to related parties	132,581	117,477
Other long-term liabilities	6,145	1,413
Commitments and contingencies		
Equity:		
Common stock (par value, \$.01), 100 shares authorized and outstanding at September 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	1,128,320	1,120,676
Accumulated other comprehensive income (loss)	(3,908)	(194)
Accumulated deficit	(84,780)	(16,693)
Total equity	1,039,632	1,103,789
Total liabilities and equity	\$ 3,812,104	\$ 3,832,315

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Successor Three Months Ended September 30, 2012	Predecessor Three Months Ended September 30, 2011	Successor Nine Months Ended September 30, 2012	Predecessor Nine Months Ended September 30, 2011
Revenue	\$ 297,075	\$ 282,149	\$ 877,577	\$ 835,758
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)	184,794	173,455	542,550	515,481
Development and engineering	7,994	7,473	24,246	23,602
Sales, marketing, general and administrative	35,308	38,342	107,382	105,604
Depreciation and amortization	48,572	39,830	140,354	116,786
Accretion	2,758		15,104	
Operating income	17,649	23,049	47,941	74,285
Interest expense, net	41,898	12,573	130,539	37,848
Loss on extinguishment of debt			21,853	
Other		(4,398)		(8,036)
Income (loss) before income tax provision (benefit)	(24,249)	14,874	(104,451)	44,473
Income tax provision (benefit)	(9,093)	8,601	(36,364)	21,696
Net income (loss)	(15,156)	6,273	(68,087)	22,777
Net income attributable to noncontrolling interest		2,906		9,214
Net income (loss) attributable to Emdeon Inc.	\$ (15,156)	\$ 3,367	\$ (68,087)	\$ 13,563

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)**

	Successor Three Months Ended September 30, 2012	Predecessor Three Months Ended September 30, 2011	Successor Nine Months Ended September 30, 2012	Predecessor Nine Months Ended September 30, 2011
Net income (loss)	\$ (15,156)	\$ 6,273	\$ (68,087)	\$ 22,777
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(1,487)		(3,821)	
Other comprehensive income amortization, net of taxes		838		2,481
Foreign currency translation adjustment	(127)	118	107	113
Other comprehensive income (loss)	(1,614)	956	(3,714)	2,594
Total comprehensive income (loss)	(16,770)	7,229	(71,801)	25,371
Comprehensive income attributable to noncontrolling interest		3,109		9,767
Comprehensive income (loss) attributable to Emdeon Inc.	\$ (16,770)	\$ 4,120	\$ (71,801)	\$ 15,604

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)

	Class A		Class B		Additional Paid-in Capital	Contingent Consideration	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total Equity
	Common Stock Shares	Amount	Common Stock Shares	Amount						
Predecessor Balances:										
Balance at January 1, 2011	91,064,486	\$ 1	24,689,142	\$	\$ 738,888	\$ 1,955	\$ 53,250	\$ (2,569)	\$ 263,763	\$ 1,055,288
Equity compensation expense					13,992				3,618	17,610
Issuance of shares in connection with equity compensation plans, net of taxes	187,866				1,299				(438)	861
Tax receivable agreement with related parties, net of taxes					(58)					(58)
Net income							13,563		9,214	22,777
Foreign currency translation adjustment								89	24	113
Other comprehensive income amortization, net of taxes								1,952	529	2,481
Balance at September 30, 2011	91,252,352	\$ 1	24,689,142	\$	\$ 754,121	\$ 1,955	\$ 66,813	\$ (528)	\$ 276,710	\$ 1,099,072
Successor Balances:										
Balance at January 1, 2012	100	\$		\$	\$ 1,120,676	\$	(16,693)	\$ (194)	\$	\$ 1,103,789
Reclassification of liability awards to equity awards					3,675					3,675
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)
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

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)**

	Successor Nine Months Ended September 30, 2012	Predecessor Nine Months Ended September 30, 2011
Operating activities		
Net income (loss)	\$ (68,087)	\$ 22,777
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	140,354	116,786
Accretion	15,104	
Equity compensation	3,969	17,610
Deferred income tax expense (benefit)	(37,369)	2,611
Amortization of debt discount and issuance costs	7,613	10,470
Amortization of discontinued cash flow hedge from other comprehensive loss		2,843
Change in contingent consideration		(8,036)
Change in fair value of interest rate swap (not subject to hedge accounting)		(7,983)
Loss on extinguishment of debt	18,293	
Other	1,927	36
Changes in operating assets and liabilities:		
Accounts receivable	(5,547)	(7,040)
Prepaid expenses and other	(3,686)	10,843
Accounts payable	5,153	5,888
Accrued expenses, deferred revenue and other liabilities	(8,444)	16,329
Tax receivable agreement obligations to related parties	(114)	(2,593)
Net cash provided by operating activities	69,166	180,541
Investing activities		
Purchases of property and equipment	(40,949)	(48,207)
Payments for acquisitions, net of cash acquired	(59,011)	(39,422)
Net cash used in investing activities	(99,960)	(87,629)
Financing activities		
Proceeds from Term Loan Facility	70,351	
Debt principal payments	(9,565)	(6,412)
Payments on revolver	(15,000)	
Payment of loan costs	(2,060)	
Repurchase of Parent common stock	(317)	
Other	(203)	(620)
Net cash provided by (used in) financing activities	43,206	(7,032)
Net increase in cash and cash equivalents	12,412	85,880
Cash and cash equivalents at beginning of period	37,925	99,188
Cash and cash equivalents at end of period	\$ 50,337	\$ 185,068

See accompanying notes to unaudited condensed consolidated financial statements.

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Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

1. Nature of Business and Organization

Nature of Business

Emdeon Inc. (the Company), through its subsidiaries, is a provider of revenue and payment cycle management and clinical information exchange solutions, connecting payers, providers and patients of the U.S. 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 exchange capabilities, 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 August 3, 2011, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Beagle Parent Corp. (Parent) and Beagle Acquisition Corp. (Merger Sub), an indirect wholly-owned subsidiary of Parent. At a special meeting of stockholders held on November 1, 2011, the Company's stockholders voted to approve the transactions contemplated by the Merger Agreement. On November 2, 2011, 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). As a result of the consummation of the Merger, each share of Class A common stock, par value \$0.00001 (Class A common stock) and Class B common stock, par value \$0.00001 (Class B common stock), of the Company, other than (i) shares owned by the Company and its wholly-owned subsidiaries and (ii) shares owned by Parent and its subsidiaries, including shares and other equity contributed by certain rollover investors in connection with the Merger, was cancelled and/or converted into the right to receive \$19.00 in cash, without interest and less any applicable withholding taxes.

The Merger was financed as follows (the following transactions, together with the Merger, are sometimes referred to as the 2011 Transactions):

Cash held by the Company at closing;

\$1.224 billion new senior secured term loan credit facility;

\$125.0 million new senior secured revolving credit facility;

\$375.0 million senior notes due 2019;

\$375.0 million senior notes due 2020;

\$966.0 million cash capital contribution from the Company's new equity investors;

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Contribution by affiliates of Hellman and Friedman (H&F) of shares of Class A common stock and membership interests in EBS Master LLC (EBS Master) in exchange for shares of common stock of Parent; and

Contribution by certain of our senior management team members of a limited number of stock options to acquire shares of Class A common stock in exchange for stock options to acquire shares of common stock of Parent.

Immediately following the Merger, the Company repaid all amounts due under the Company's prior credit agreements and terminated its prior interest rate swap agreement with the proceeds from the 2011 Transactions.

Subsequent to the 2011 Transactions, in April 2012, the Company amended the credit agreement governing the senior credit facilities to reprice the senior credit facilities and borrow \$80,000 of additional term loans for general corporate purposes, including acquisitions.

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Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

As a result of the Merger and the change in the basis of the Company's assets and liabilities, periods prior to the Merger are referred to as Predecessor and periods after the Merger are referred to as Successor. Because of this change in basis, the Predecessor and Successor period financial statements are not comparable.

2. Basis of Presentation and Summary of Significant New Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of 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 U.S. generally accepted accounting principles 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, 2011, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-13, an update to FASB ASC Revenue Recognition Topic, which amends existing accounting standards for revenue recognition for multiple-element arrangements. To the extent a deliverable within a multiple-element arrangement is not accounted for pursuant to other accounting standards, the update establishes a selling price hierarchy that allows for the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple-element arrangement where neither vendor-specific objective evidence nor third-party evidence is available for that deliverable. The adoption of this update had no material effect on the Company's consolidated financial statements.

On October 1, 2011, the Company adopted FASB ASU No. 2011-08, an update to FASB ASC Intangibles - Goodwill and Other Topic, which amends the existing accounting standards related to the method of assessing goodwill for potential impairment. Specifically, this update limits the requirement for a company to perform a quantitative goodwill impairment test to situations in which management believes it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The adoption of this update had no material effect on the Company's consolidated financial statements.

On December 31, 2011, the Company retroactively adopted FASB ASU No. 2011-05, an update to FASB ASC Comprehensive Income Topic, which amends the existing accounting standards related to the presentation of comprehensive income in a company's financial statements. This update requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two statement approach, the first statement would present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income and the total of comprehensive income. Under either presentation alternative, reclassification adjustments and the effect of those adjustments on net income and other comprehensive income must be presented in the respective statement or statements, as applicable. The Company elected to add a separate statement of comprehensive income (loss) in the accompanying consolidated financial statements to comply with this update; however, the adoption of the provisions of this update had no material impact on the Company's consolidated financial statements.

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Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

In December 2011, the FASB issued ASU No. 2011-12, which defers the effective date for the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both income and other comprehensive income on the face of the financial statements. The Company does not expect the adoption of this update to have a material impact on the Company's consolidated financial statements.

On January 1, 2012, the Company adopted FASB ASU No. 2011-04, an update to FASB ASC Fair Value Measurement Topic, which clarifies the intent of the FASB regarding existing requirements, changes certain principles for measuring fair value and expands the disclosure requirements related to fair value measurements. Specifically, this update expands the restriction on the use of block discounts to all fair value measurements and provides conditions which must be satisfied prior to the application of other premiums and discounts (e.g., control premiums and discounts for lack of marketability) to fair value measurements. Additionally, this update requires the disclosure of quantitative information about significant unobservable inputs, the valuation processes in place for Level 3 measurements, the sensitivity of fair value measurements to changes in unobservable inputs, the hierarchy classification for assets and liabilities whose fair value is disclosed only in footnotes, any transfers between Level 1 and Level 2 of the fair value hierarchy and the reason nonfinancial assets measured at fair value are being used in a manner that differs from the highest and best use. The adoption of this update had no material impact on the Company's consolidated financial statements. The disclosures required by this update are presented in Note 8 below to these unaudited condensed consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-04, which clarifies the FASB Accounting Standards Codification (the Codification) and corrects unintended application of guidance. The revisions included in this update are intended to make the Codification easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. Except for the revisions that are subject to transition guidance, the update was effective upon issuance. For revisions included in the update that are subject to transition guidance, the update is effective for periods beginning after December 15, 2012. The Company does not expect the adoption of this update to have a material impact on the Company's consolidated financial statements.

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

Successor

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.

On November 2, 2011, Merger Sub merged with and into the Company with the Company surviving the Merger. The Merger was accounted for as a reverse acquisition, and as such, the Company's assets and liabilities have been adjusted to their fair values as of the Merger date.

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

In connection with the 2011 Transactions, General Atlantic LLC and certain of its affiliates (collectively, "General Atlantic"), the majority owner of the Company prior to the 2011 Transactions, assigned its rights under the Company's tax receivable agreements to affiliates of Blackstone. This assignment did not affect the Company's overall payment obligations under the tax receivable agreements; however, because this assignment involved a transaction among owners apart from the consideration transferred for the shares of the Predecessor, the Company reduced the gross consideration transferred in the Merger by \$54,525, the fair value of these rights assigned to affiliates of Blackstone.

Predecessor

In May 2011, the Company acquired all of the equity interests of EquiClaim, LLC ("EquiClaim"), a technology-enabled provider of healthcare audit and recovery solutions.

The following table summarizes certain information related to these acquisitions. The preliminary values of the consideration transferred, assets acquired and liabilities assumed in the TC3 acquisition including related tax affects, are subject to a final working capital settlement.

	Successor TC3	Merger	Predecessor EquiClaim
Total Consideration Fair Value at Acquisition Date:			
Cash paid at closing	\$ 61,351	\$ 1,943,218	\$ 39,758
Parent common stock fair value		245,000	
Parent options fair value		4,125	
Other	444		(350)
	\$ 61,795	\$ 2,192,343	\$ 39,408
Allocation of the Consideration Transferred:			
Cash	\$ 2,340	\$ 206,376	\$
Accounts receivable	2,662	175,514	1,983
Deferred income tax assets	348	1,739	
Prepaid expenses and other current assets	155	20,226	74
Property and equipment	10,414	278,122	2,331
Other assets		4,205	
Identifiable intangible assets:			
Tradenname	530	156,000	160
Noncompetition agreements	1,300	11,500	100
Customer relationships	18,810	1,623,000	14,030
Data sublicense		31,000	
Backlog		19,000	3,680
Goodwill	38,695	1,443,574	18,079
Accounts payable		(12,346)	(98)
Accrued expenses	(4,783)	(149,480)	(931)
Deferred revenues		(4,340)	
Current maturities of long-term debt		(11,861)	
Long-term debt		(960,936)	
Deferred income tax liabilities	(8,592)	(515,725)	
Tax receivable obligations to related parties		(115,237)	
Other long-term liabilities	(84)	(7,988)	

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Total consideration transferred	\$ 61,795	\$ 2,192,343	\$ 39,408
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Acquisition costs in sales, marketing, general and administrative expense:

For the three months ended September 30, 2012	\$	\$	\$
For the three months ended September 30, 2011	\$	\$	\$ 101
For the nine months ended September 30, 2012	\$ 513	\$	\$
For the nine months ended September 30, 2011	\$	\$	\$ 350

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

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

	Successor TC3	Successor Merger	Predecessor EquiClaim
Other Information:			
Total consideration Parent common stock (in shares)		245,000	
Gross contractual accounts receivable	\$ 2,943	\$ 181,398	\$ 2,094
Amount not expected to be collected	\$ 281	\$ 5,884	\$ 111
Goodwill expected to be deductible for tax purposes	\$	\$	\$ 39,483

During the nine months ended September 30, 2012, the Company retrospectively adjusted the goodwill balance, as of the Merger, primarily to reflect a change in the valuation of the Company's tax receivable agreements to related parties and deferred income tax liabilities that were previously recorded on a provisional basis. The retrospective adjustment resulted in a decrease to goodwill, deferred income tax liabilities and tax receivable obligations to related parties of \$26,642, \$16,088 and \$21,821, respectively. In addition, these retrospective adjustments resulted in a decrease to accretion for the period from November 1, 2011 to December 31, 2011 and for the three months ended March 31, 2012 of \$457 and \$698, respectively, and an increase (decrease) to income tax benefit for the period from November 1, 2011 to December 31, 2011 and for the three months ended March 31, 2012 of \$625 and (\$418), respectively, as compared to amounts previously presented.

5. Goodwill and Intangible Assets

Goodwill activity during the nine months ended September 30, 2012 was as follows:

	Payer	Provider	Pharmacy	Total
Balance at December 31, 2011	\$ 508,766	\$ 761,870	\$ 172,938	\$ 1,443,574
TC3 Acquisition	38,695			38,695
Changes in preliminary purchase price allocation	(107)	(173)	(38)	(318)
Balance at September 30, 2012	\$ 547,354	\$ 761,697	\$ 172,900	\$ 1,481,951

Intangible assets subject to amortization as of September 30, 2012 consist of the following:

	Weighted Average Remaining Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	18.7	\$ 1,641,810	\$ (75,904)	\$ 1,565,906
Trade names	18.7	156,530	(7,224)	149,306
Non-compete agreements	3.8	12,800	(2,289)	10,511
Data sublicense agreement	5.0	31,000	(4,801)	26,199
Backlog	0.4	19,000	(13,139)	5,861
Total		\$ 1,861,140	\$ (103,357)	\$ 1,757,783

Amortization expense was \$84,753 and \$70,290 for the nine months ended September 30, 2012 and 2011, respectively.

Table of Contents**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:

2012 (remainder)	\$ 27,695
2013	102,889
2014	99,778
2015	99,371
2016	98,785
Thereafter	1,329,265
	\$ 1,757,783

6. Long-Term Debt

In connection with the 2011 Transactions, the Company incurred substantial new indebtedness 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, 2012 and December 31, 2011, consisted of the following:

	September 30, 2012	December 31, 2011
<i>Senior Credit Facilities</i>		
\$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$33,634 and \$38,160 at September 30, 2012 and December 31, 2011, respectively (effective interest rate of 5.82% and 7.79% at September 30, 2012 and December 31, 2011, respectively)	\$ 1,260,802	\$ 1,185,840
\$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate		15,000
<i>Senior Notes</i>		
\$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$8,702 and \$9,257 at September 30, 2012 and December 31, 2011, respectively (effective interest rate of 11.53% at September 30, 2012)	366,298	365,743
\$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$10,586 and \$11,134 at September 30, 2012 and December 31, 2011, respectively (effective interest rate of 11.86% at September 30, 2012)	364,414	363,866
<i>Obligation under data sublicense agreement</i>	30,659	30,659
Less current portion	(16,805)	(16,034)

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Long-term debt	\$ 2,005,368	\$ 1,945,074
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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

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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 U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% or (b) a LIBOR rate determined by reference to the costs of funds for U.S. 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 \$80,000 of additional term loans. Following this amendment, the LIBOR-based interest rate on the Term Loan Facility is 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 is 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). 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. The amendments to the Senior Credit Agreement resulted in a loss on extinguishment of debt of \$21,853 and other expenses related to fees paid to third parties of \$3,558, during the nine months ended September 30, 2012, which have been reflected within sales, marketing, general and administrative expense in the accompanying unaudited condensed 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 ending 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 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, that if on or prior to the anniversary of any repricing transaction, the Company prepays any loans under the Term Loan Facility in connection with a repricing transaction, the Company must pay a prepayment premium of 1.00% of the aggregate principal amount of the loans so prepaid.

The Company is required to make quarterly payments equal to 0.25% of the amended 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 U.S. 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 U.S. 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 U.S. wholly-owned restricted subsidiaries and 65% of the capital stock of its foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

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The Senior Credit Agreement requires the Company to comply with maximum first lien net leverage ratio and consolidated cash interest coverage ratio financial maintenance covenants, to be tested on the last day of each fiscal quarter. A breach of these covenants 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, commencing on March 31, 2012. The 2020 Notes mature on December 31, 2020.

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

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 U.S. restricted subsidiaries that guarantee the Senior Credit Facilities or its other indebtedness or indebtedness of any affiliate guarantor. The Senior Notes and the related guarantees are effectively subordinated to the Company's existing and future secured obligations and that of its affiliate guarantors to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all existing and future indebtedness and other liabilities of any of the Company's subsidiaries that do not guarantee the Senior Notes.

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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 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 \$45,000 remained payable at September 30, 2012). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

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

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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 nine months ended September 30, 2012, 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, 2012, 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.

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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 \$2,564 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, 2012 and December 31, 2011:

	Balance Sheet Location	Fair Values of Derivative Instruments	
		September 30, 2012	December 31, 2011
Asset (Liability) Derivatives			
Derivatives designated as hedging instruments:			
Interest rate swaps	Accrued expenses	\$ (2,564)	\$
Interest rate swaps	Other long-term liabilities	(3,509)	
		\$ (6,073)	\$

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, 2012 and 2011, respectively, is summarized in the following table:

	Successor Three Months Ended September 30, 2012	Predecessor Three Months Ended September 30, 2011	Successor Nine Months Ended September 30, 2012	Predecessor Nine Months Ended September 30, 2011
Derivatives in Cash Flow Hedging Relationships				
Loss related to effective portion of derivative recognized in other comprehensive loss	\$ 3,012	\$	\$ 7,795	\$
Loss related to effective portion of derivative reclassified from accumulated other comprehensive loss to interest expense	\$ (652)	\$ (3,836)	\$ (1,722)	\$ (11,321)
Derivatives Not Designated as Hedging Instruments				
Gain recognized in interest expense	\$	\$ 2,820	\$	\$ 7,983

Credit Risk-related Contingent Features

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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.

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As of September 30, 2012, 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 \$7,072. If the Company had breached any of these provisions at September 30, 2012, it could have been required to settle its obligations under the agreements at this termination value.

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, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall.

Description	Balance at September 30, 2012	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps	\$ (6,073)	\$	\$ (6,073)	\$
Contingent consideration obligations	(344)			(344)
Total	\$ (6,417)	\$	\$ (6,073)	\$ (344)

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.

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 September 30, 2012, 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 agreements and utilizes assumptions with regard to future cash flows, probabilities of achieving such future cash flows and a discount rate. Significant increases with respect to assumptions as to future cash flows and probabilities of achieving such future cash flows would result in a higher fair value measurement while an increase in the discount rate would result in a

lower fair value measurement.

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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)

	Successor Three Months Ended September 30, 2012	Predecessor Three Months Ended September 30, 2011	Successor Nine Months Ended September 30, 2012	Predecessor Nine Months Ended September 30, 2011
Balance at beginning of period	\$ (402)	\$ (10,995)	\$ (501)	\$ (16,046)
Issuances of contingent consideration		173		652
Settlement of contingent consideration	58	67	157	1,001
Total changes included in other income		4,398		8,036
Balance at end of period	\$ (344)	\$ (6,357)	\$ (344)	\$ (6,357)

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, 2012 were:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 50,337	\$ 50,337
Accounts receivable	\$ 197,169	\$ 197,169
Senior Credit Facilities (Level 1)	\$ 1,260,802	\$ 1,312,234
Senior Notes (Level 2)	\$ 730,712	\$ 851,250
Cost method investment (Level 3)	\$ 3,458	\$ 4,018

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.

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The Company executed transactions that both increased and decreased its ownership interest in EBS Master in the Predecessor period. In connection with the 2011 Transactions, all of the noncontrolling interests were acquired by affiliates of the Company. The changes in noncontrolling interests are summarized in the following table:

	Successor Nine Months Ended September 30, 2012	Predecessor Nine Months Ended September 30, 2011
Net income (loss) attributable to Emdeon Inc.	\$ (68,087)	\$ 13,563
Transfers from the noncontrolling interest:		
Increase in Emdeon Inc. paid-in capital for issuance of EBS Units in connection with equity compensation plans		1,299
Net transfers from noncontrolling interest		1,299
Change from net income (loss) attributable to Emdeon Inc. and transfers from noncontrolling interest	\$ (68,087)	\$ 14,862

11. Equity-Based Compensation Plans***Effect of the Merger***

In connection with the 2011 Transactions, the Company's outstanding stock options, EBS Master units (EBS Units) and restricted stock units under various equity compensation programs, including the 2009 Equity Incentive Plan (the 2009 Plan), became fully vested immediately prior to the closing of the Merger in accordance with the award agreements and were settled in cash, canceled or, for certain members of senior management, exchanged for new options of Parent common stock (the Rollover Options). Except for the Rollover Options, each option holder received an amount in cash, without interest and less applicable withholding taxes, equal to \$19.00 less the exercise price of each option. Additionally, each EBS Unit and restricted stock unit holder received \$19.00 in cash, without interest and less applicable withholding taxes.

The exercise price of the Rollover Options and the number of shares of Parent common stock underlying the Rollover Options were adjusted as a result of the Merger. Additionally, the Rollover Options provided each of the holders a right, which expired in June 2012, to require Parent to repurchase shares issued upon exercise of the Rollover Options at their initial fair value. As the repurchase rights were within the control of the option holder, the Company initially included the fair value (\$4,125) of these Rollover Options in accrued expenses in the accompanying condensed consolidated balance sheet at December 31, 2011. Upon the expiration of the repurchase rights, the fair value associated with remaining Rollover Options was reclassified to equity in the accompanying unaudited condensed consolidated balance sheet at September 30, 2012.

Parent Awards

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Parent assumed the 2009 Plan by adopting the Beagle Parent Corp. Amended and Restated 2009 Equity Incentive Plan (the Parent Equity Plan). Pursuant to the Parent Equity Plan, 125,718 shares of Parent common stock have been reserved for the issuance of equity awards to employees, directors and consultants of Parent and its affiliates.

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In July 2012, Parent granted options to certain employees and an independent director to purchase shares of Parent common stock under the Parent Equity Plan. Grants under the Parent Equity Plan consist of one, or a combination, of time-vested options and/or performance-based options. In each case, the options are subject to certain call rights by Parent in the event of termination of service by the option holder and put rights by the option holder or his/her beneficiaries in the event of death or disability.

Time-Vested Options

The time-vested options consist of the following:

(i) Tier I Time Options were granted with an exercise price equal to the fair value of Parent common stock on the date of grant and generally vest in equal 20% installments on the first through fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date. The Company estimated the fair value of the Tier I Time Options using the Black-Scholes option pricing model. As of September 30, 2012, unrecognized compensation expense related to Tier I Time Options was \$22,680. This expense is expected to be recognized over a weighted average period of 2.4 years.

(ii) Tier II Time Options were granted with an exercise price greater than the fair value of Parent common stock on the date of grant and generally vest in equal 20% installments on the first through fifth anniversary of the Merger, subject to the option holder's continued employment through each vesting date. As the Tier II Time Options were granted with an exercise price that was significantly out of the money as of the grant date, the Tier II Time Options contain an implied market condition. As a result, the requisite service period is the longer of the explicit and derived service periods. The Company estimated the fair value of the Tier II Time Options using a Monte Carlo simulation. As of September 30, 2012, unrecognized compensation expense related to the Tier II Time Options was \$6,511. This expense is expected to be recognized over a weighted average period of 2.7 years.

Performance Options

The performance options were granted with an exercise price equal to the fair value of Parent common stock on the date of grant and vest, subject to the employee's continued employment through the vesting date, on the date when Blackstone has sold at least 25% of the maximum number of Parent shares held by it (i.e. a liquidity event) and achieved a specified rate of return. The Company has valued the performance options using a Monte Carlo simulation. Because vesting of the performance options is contingent upon the occurrence of a liquidity event, no compensation expense has been recorded related to the performance options. In the event that a sale by Blackstone of at least 25% of its stock occurs, the Company will record all related compensation expense at that time. As of September 30, 2012, unrecognized compensation expense related to the performance options was \$19,934.

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Activity Summary

A summary of option activity under the Parent Equity Plan for the nine months ended September 30, 2012, is presented separately below for options valued using the Black Scholes option pricing model and a Monte Carlo simulation.

Options Valued Using the Black Scholes Option Pricing Model

	Options		Weighted Average Exercise Price		Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value	
	Tier I Time Options	Rollover Options	Tier I Time Options	Rollover Options	Tier I Time Options	Rollover Options	Tier I Time Options	Rollover Options
Outstanding at January 1, 2012		5,410	\$	\$ 250		9.8	\$	\$ 4,058
Granted	46,065			1,000				
Exercised								
Expired								
Forfeited								
Rollover Options settled		(590)		250				
Outstanding at September 30, 2012	46,065	4,820	\$ 1,000	\$ 250	9.8	9.1	\$	\$ 3,615
Exercisable at September 30, 2012		4,820	\$	\$		9.1	\$	\$ 3,615

Options Valued Using a Monte Carlo Simulation

	Options		Weighted Average Exercise Price		Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value	
	Tier II Time Options	Performance Options	Tier II Time Options	Performance Options	Tier II Time Options	Performance Options	Tier II Time Options	Performance Options
Outstanding at January 1, 2012			\$	\$			\$	\$
Granted	18,350	45,965	2,500	1,000				
Exercised								
Expired								
Forfeited								
Outstanding at September 30, 2012	18,350	45,965	\$ 2,500	\$ 1,000	9.8	9.8	\$	\$

Outstanding and Exercisable at September 30, 2012	\$	\$	\$	\$
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Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)*****Black-Scholes and Monte Carlo Simulation Option Pricing Model Assumptions***

The following table summarizes the weighted average fair values of awards valued using the Black-Scholes and Monte Carlo Simulation option pricing models, as appropriate, and the weighted average assumptions used to develop the fair value estimates under each of the valuation models for the nine months ended September 30, 2012:

	Rollover Options	Tier I Time Options	Tier II Time Options	Performance Options
Weighted average fair value	\$ 762.51	\$ 567.88	\$ 381.50	\$ 433.67
Expected dividend yield				
Expected volatility	29.16%	61.80%	57.63%	57.63%
Risk-free interest rate	0.90%	0.84%	1.57%	1.57%
Expected term (years)	5.0	6.15	N/A	N/A

Expected dividend yield The Company is subject to limitations on the payment of dividends under its Senior Credit Facilities as further discussed in Note 6 above to these unaudited condensed consolidated financial statements. An increase in the dividend yield will decrease compensation expense.

Expected volatility This is a measure of the amount by which the price of the equity instrument has fluctuated or is expected to fluctuate. For the Rollover Options, the expected volatility was estimated based on a weighted average of the Company's Class A common stock historical volatility prior to the Merger and the median historical volatility of a group of guideline companies (weighted based upon proportion of the expected term represented by the Company's historical volatility and the volatility of the guideline companies, respectively). For options granted following the Merger, the expected volatility was based upon the levered median historical volatility of a group of guideline companies. An increase in the expected volatility will increase compensation expense.

Risk-free interest rate This is the U.S. Treasury rate for the week of the grant having a term approximating the expected life of the award. An increase in the risk-free interest rate will increase compensation expense.

Expected term This is the period of time over which the awards are expected to remain outstanding. The Company estimates the expected term as the mid-point between the actual or expected vesting date and the contractual term. An increase in the expected term will increase compensation expense.

Summary of Equity Compensation Expense

For the nine months ended September 30, 2012 and 2011, the Company recognized expense of \$3,969 and \$17,610, respectively, in the aggregate related to its equity compensation arrangements.

12. Income Taxes

Income taxes for the nine months ended September 30, 2012 and September 30, 2011 amounted to an income tax benefit of (\$36,364) and an income tax expense of \$21,696, respectively. The Company's effective tax rate was 34.8% for the nine months ended September 30, 2012 compared with 48.8% during the same period in 2011. The Company's effective tax rate is affected by deferred tax expense resulting from differences between the book and income tax basis of its investment in EBS Master, changes in the Company's valuation allowances and other factors. For periods prior to the Merger, the effective rate was also affected by noncontrolling interest.

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13. 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 General Atlantic, 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, including the 2011 Transactions. The Company will retain the benefit of the remaining 15% of these tax savings.

In connection with the 2011 Transactions, H&F and certain current and former members of management exchanged all of their remaining EBS Units (and corresponding shares of Class B common stock) for cash and a combination of cash and shares of Parent, respectively, and General Atlantic assigned their rights under the tax receivable agreements to affiliates of Blackstone (Blackstone, together with H&F and certain current and former members of management are hereinafter 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 \$354,000. \$132,800 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, 2012. The accompanying unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2012 includes accretion expense of \$2,758 and \$15,104, respectively, related to this obligation.

During the nine months ended September 30, 2012, the Company changed its estimate of the timing and amount of expected future cash flows attributable to the tax receivable agreements as a result of the impact of the amendments to the Senior Credit Agreement, the TC3 acquisition and an increase in state income tax rates. These revised estimates resulted in an increase to pretax net loss of \$3,436 for the nine months ended September 30, 2012.

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14. Segment Reporting

Management views the Company's operating results in three reportable segments: (a) payer services, (b) provider services and (c) pharmacy services. Listed below are the results of operations for each of the reportable segments. 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 reportable 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 Registration Statement on Form S-4, as amended (File No. 333-182786), for the Senior Notes as filed with the Securities & Exchange Commission (SEC).

Payer Services Segment

The payer services segment provides payment cycle solutions to healthcare payers, both directly and through the Company's channel partners, that simplify the administration of healthcare related to insurance eligibility and benefit verification, claims filing, payment integrity and claims and payment distribution. Additionally, the payer services segment provides consulting services primarily to healthcare payers.

Provider Services Segment

The provider services segment provides revenue cycle management solutions, patient billing and payment services, government program eligibility and enrollment services and clinical exchange capabilities, both directly and through the Company's channel partners, 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 and government agencies related to prescription benefit claim filing, adjudication and management.

Other

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

Corporate and eliminations includes personnel and other costs associated with the Company's management, administrative and other corporate services functions and eliminations to remove inter-segment revenues and expenses.

The revenue and total segment contribution for the reportable segments are as follows:

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

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

Successor Three Months Ended September 30, 2012

	Payer	Provider	Pharmacy	Corporate & Eliminations	Consolidated
Revenue from external customers					
Claims management	\$ 62,253	\$	\$	\$	\$ 62,253
Payment services	64,996				64,996
Patient statements		63,758			63,758
Revenue cycle management		74,681			74,681
Dental		7,828			7,828
Pharmacy services			23,559		23,559
Inter-segment revenues	1,211	205	90	(1,506)	
Net revenue	128,460	146,472	23,649	(1,506)	297,075
Costs and expenses:					
Cost of operations	84,716	91,380	10,145	(1,447)	184,794
Development and engineering	2,610	3,715	1,669		7,994
Sales, marketing, general and administrative	10,388	9,914	1,343	13,663	35,308
Segment contribution	\$ 30,746	\$ 41,463	\$ 10,492	\$ (13,722)	68,979
Depreciation and amortization					48,572
Accretion					2,758
Interest expense, net					41,898
Loss before income tax benefit					\$ (24,249)

Predecessor Three Months Ended September 30, 2011

	Payer	Provider	Pharmacy	Corporate & Eliminations	Consolidated
Revenue from external customers					
Claims management	\$ 53,153	\$	\$	\$	\$ 53,153
Payment services	61,770				61,770
Patient statements		64,273			64,273
Revenue cycle management		73,439			73,439
Dental		7,860			7,860
Pharmacy services			21,654		21,654
Inter-segment revenue	853	151		(1,004)	
Net revenue	115,776	145,723	21,654	(1,004)	282,149
Costs and expenses:					
Cost of operations	77,303	88,292	8,799	(939)	173,455

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Development and engineering	2,877	2,918	1,678		7,473
Sales, marketing, general and administrative	7,863	10,263	1,716	18,500	38,342
Segment contribution	\$ 27,733	\$ 44,250	\$ 9,461	\$ (18,565)	62,879
Depreciation and amortization					39,830
Interest expense, net					12,573
Other					(4,398)
Income before income tax provision					\$ 14,874

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

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

Successor Nine Months Ended September 30, 2012

	Payer	Provider	Pharmacy	Corporate & Eliminations	Consolidated
Revenue from external customers					
Claims management	\$ 173,166	\$	\$	\$	\$ 173,166
Payment services	195,691				195,691
Patient statements		190,861			190,861
Revenue cycle management		223,647			223,647
Dental		24,028			24,028
Pharmacy services			70,184		70,184
Inter-segment revenues	3,117	643	270	(4,030)	
Net revenue	371,974	439,179	70,454	(4,030)	877,577
Costs and expenses:					
Cost of operations	244,704	272,429	29,258	(3,841)	542,550
Development and engineering	8,270	11,041	4,935		24,246
Sales, marketing, general and administrative	26,511	29,170	4,416	47,285	107,382
Segment contribution	\$ 92,489	\$ 126,539	\$ 31,845	\$ (47,474)	203,399
Depreciation and amortization					140,354
Accretion					15,104
Interest expense, net					130,539
Loss on extinguishment of debt					21,853
Loss before income tax benefit					\$ (104,451)

Predecessor Nine Months Ended September 30, 2011

	Payer	Provider	Pharmacy	Corporate & Eliminations	Consolidated
Revenue from external customers					
Claims management	\$ 153,679	\$	\$	\$	\$ 153,679
Payment services	186,512				186,512
Patient statements		192,813			192,813
Revenue cycle management		216,238			216,238
Dental		23,464			23,464
Pharmacy services			63,052		63,052
Inter-segment revenue	2,572	390		(2,962)	
Net revenue	342,763	432,905	63,052	(2,962)	835,758
Costs and expenses:					

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Cost of operations	229,501	262,654	26,100	(2,774)	515,481
Development and engineering	7,827	10,635	5,140		23,602
Sales, marketing, general and administrative	23,185	32,611	4,579	45,229	105,604
Segment contribution	\$ 82,250	\$ 127,005	\$ 27,233	\$ (45,417)	191,071
Depreciation and amortization					116,786
Interest expense, net					37,848
Other					(8,036)
Income before income tax provision					\$ 44,473

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****15. 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, 2012.

	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2012	\$ (194)	\$	\$ (194)
Change associated with foreign currency translation	107		107
Change associated with current period hedging		(2,099)	(2,099)
Reclassification into earnings		(1,722)	(1,722)
Balance at September 30, 2012	\$ (87)	\$ (3,821)	\$ (3,908)

16. 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 of the SEC Guidelines, Rules, and Regulations (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, summarized condensed consolidating balance sheets as of September 30, 2012 and December 31, 2011, unaudited condensed consolidating statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2012 and 2011, respectively, and condensed consolidating cash flows for the nine months ended September 30, 2012 and September 30, 2011, respectively, for the Company, segregating the issuer, the subsidiary guarantors and consolidating adjustments, are reflected below. Prior year 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.	Successor As of September 30, 2012 Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 11,263	\$ 39,074	\$	\$ 50,337
Accounts receivable, net of allowance for doubtful accounts		197,169		197,169
Deferred income tax assets		4,772		4,772
Prepaid expenses and other current assets	2,104	18,810		20,914
Total current assets	13,367	259,825		273,192
Property and equipment, net	4	268,377		268,381
Due from affiliates		59,764	(59,764)	
Investment in consolidated subsidiaries	1,871,279		(1,871,279)	
Goodwill		1,481,951		1,481,951
Intangible assets, net	153,750	1,604,033		1,757,783
Other assets, net	13,016	22,010	(4,229)	30,797
Total assets	\$ 2,051,416	\$ 3,695,960	\$ (1,935,272)	\$ 3,812,104
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$	\$ 13,567	\$	\$ 13,567
Accrued expenses	29,125	90,336		119,461
Deferred revenues		8,967		8,967
Current portion of long-term debt	4,075	12,730		16,805
Total current liabilities	33,200	125,600		158,800
Due to affiliates	59,764		(59,764)	
Long-term debt, excluding current portion	782,730	1,222,638		2,005,368
Deferred income tax liabilities		473,807	(4,229)	469,578
Tax receivable agreement obligations to related parties	132,581			132,581
Other long-term liabilities	3,509	2,636		6,145
Commitments and contingencies				
Equity	1,039,632	1,871,279	(1,871,279)	1,039,632
Total liabilities and equity	\$ 2,051,416	\$ 3,695,960	\$ (1,935,272)	\$ 3,812,104

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.	Successor As of December 31, 2011 Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 572	\$ 37,353	\$	\$ 37,925
Accounts receivable, net of allowance for doubtful accounts		188,960		188,960
Deferred income tax assets		5,862		5,862
Prepaid expenses and other current assets	2,072	14,854		16,926
Total current assets	2,644	247,029		249,673
Property and equipment, net	8	277,760		277,768
Due from affiliates		55,471	(55,471)	
Investment in consolidated subsidiaries	1,941,142		(1,941,142)	
Goodwill		1,443,574		1,443,574
Intangible assets, net	160,500	1,661,397		1,821,897
Other assets, net	9,256	30,147		39,403
Total assets	\$ 2,113,550	\$ 3,715,378	\$ (1,996,613)	\$ 3,832,315
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$	\$ 8,827	\$	\$ 8,827
Accrued expenses	19,283	112,813		132,096
Deferred revenues		5,561		5,561
Current portion of long-term debt	4,074	11,960		16,034
Total current liabilities	23,357	139,161		162,518
Due to affiliates		55,471	(55,471)	
Long-term debt, excluding current portion	781,575	1,163,499		1,945,074
Deferred income tax liabilities	31,881	470,163		502,044
Tax receivable agreement obligations to related parties	117,477			117,477
Other long-term liabilities		1,413		1,413
Commitments and contingencies				
Equity	1,103,789	1,941,142	(1,941,142)	1,103,789
Total liabilities and equity	\$ 2,113,550	\$ 3,715,378	\$ (1,996,613)	\$ 3,832,315

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

	Successor 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)		184,794		184,794
Development and engineering		7,994		7,994
Sales, marketing, general and administrative	2,606	32,702		35,308
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 benefit	(25,351)	7,039	(5,937)	(24,249)
Income tax 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

	Predecessor Three Months Ended September 30, 2011			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue	\$	\$ 282,149	\$	\$ 282,149
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		173,455		173,455
Development and engineering		7,473		7,473
Sales, marketing, general and administrative	2,207	36,135		38,342
Depreciation and amortization	1	39,829		39,830
Operating income (loss)	(2,208)	25,257		23,049
Equity in earnings of consolidated subsidiaries	(10,889)		10,889	
Interest expense, net	752	11,821		12,573
Other		(4,398)		(4,398)
Income (loss) before income tax provision	7,929	17,834	(10,889)	14,874
Income tax provision	4,562	4,039		8,601
Net income (loss)	3,367	13,795	(10,889)	6,273
Net income attributable to noncontrolling interest			2,906	2,906
Net income (loss) attributable to Emdeon Inc.	\$ 3,367	\$ 13,795	\$ (13,795)	\$ 3,367

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

	Emdeon Inc.	Successor Nine Months September 30, 2012 Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue	\$	\$ 877,577	\$	\$ 877,577
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		542,550		542,550
Development and engineering		24,246		24,246
Sales, marketing, general and administrative	7,261	100,121		107,382
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 benefit	(101,944)	(4,314)	1,807	(104,451)
Income tax benefit	(33,857)	(2,507)		(36,364)
Net income (loss)	\$ (68,087)	\$ (1,807)	\$ 1,807	\$ (68,087)