

ALLEGHENY TECHNOLOGIES INC

Form 11-K

June 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO  
FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

..TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
[NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-12001

ALLEGHENY TECHNOLOGIES RETIREMENT SAVINGS PLAN

(Title of Plan)

ALLEGHENY TECHNOLOGIES INCORPORATED

(Name of Issuer of securities held pursuant to the Plan)

1000 Six PPG Place, Pittsburgh, Pennsylvania 15222-5479

(Address of Plan and principal executive offices of Issuer)

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

Allegheny Technologies Retirement Savings Plan

As of December 31, 2015 and 2014 and for the Year Ended December 31, 2015

With Report of Independent Registered Public Accounting Firm

---

Allegheny Technologies Retirement Savings Plan  
Audited Financial Statements  
and Supplemental Schedule  
As of December 31, 2015 and 2014 and for the Year Ended December 31, 2015  
Contents

|  |           |
|--|-----------|
| Report of Independent Registered Public Accounting Firm        | <u>1</u>  |
| Audited Financial Statements                                   |           |
| Statements of Net Assets Available for Benefits                | <u>2</u>  |
| Statement of Changes in Net Assets Available for Benefits      | <u>3</u>  |
| Notes to Financial Statements                                  | <u>4</u>  |
| Supplemental Schedule  |           |
| Schedule H, Line 4i – Schedule of Assets (Held at End of Year) | <u>10</u> |

---

Report of Independent Registered Public Accounting Firm

Allegheny Technologies Incorporated

Pittsburgh, Pennsylvania

We have audited the accompanying statements of net assets available for benefits of the Allegheny Technologies Retirement Savings Plan (the Plan) as of December 31, 2015 and 2014, and the related statement of changes in net assets available for benefits for the year ended December 31, 2015. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2015 and 2014, and the changes in its net assets available for benefits for the year ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2015 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but include supplemental information required by the Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA). The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under the ERISA. In our opinion, the supplemental information in the accompanying schedule is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania

June 10, 2016

Allegheny Technologies Retirement Savings Plan  
Statements of Net Assets Available for Benefits

|  | December 31  |               |
|--|--------------|---------------|
|  | 2015         | 2014          |
| Investments at fair value:                                   |              |               |
| Interest in Allegheny Technologies Incorporated Master Trust | \$10,143,217 | \$266,368,410 |
| Interest in registered investment companies                  | 609,757      | 5,114,336     |
| Total investments at fair value                              | 10,752,974   | 271,482,746   |
| Investments at contract value:                               |              |               |
| Interest in Allegheny Technologies Incorporated Master Trust | 7,871,098    | 85,585,481    |
| Total investments at contract value                          | 7,871,098    | 85,585,481    |
| Notes receivable from participants                           | 411,261      | 3,228,420     |
| Employer contributions receivable                            | —            | 407,083       |
| Employee contributions receivable                            | —            | 325,723       |
|  | 411,261      | 3,961,226     |
| Net assets available for benefits                            | \$19,035,333 | \$361,029,453 |
| See accompanying notes.                                      |              |               |

Allegheny Technologies Retirement Savings Plan  
Statement of Changes in Net Assets Available for Benefits

|  | Year Ended<br>December 31,<br>2015 |
|--|------------------------------------|
| Contributions:   |                                    |
| Employer   | \$8,209,352                        |
| Employee   | 8,479,200                          |
| Rollovers  | 306,966                            |
| Total contributions  | 16,995,518                         |
| Interest income on notes receivable from participants                                      | 124,359                            |
| Investment income (loss):  |                                    |
| Net investment loss from Plan interest in Allegheny Technologies Incorporated Master Trust | (6,161,964 )                       |
| Net income from interest in registered investment companies                                | 101,626                            |
| Other income   | 4,854                              |
| Total investment loss  | (6,055,484 )                       |
|  | 11,064,393                         |
| Benefits paid to participants  | (26,744,434 )                      |
| Administrative expenses and other, net   | (7,290 )                           |
|  | (26,751,724 )                      |
| Net decrease in net assets available for benefits prior to transfers                       | (15,687,331 )                      |
| Transfers out of plan  | (326,306,789)                      |
| Net decrease in net assets available for benefits  | (341,994,120)                      |
| Net assets available for benefits at beginning of year                                     | 361,029,453                        |
| Net assets available for benefits at end of year   | \$ 19,035,333                      |
| See accompanying notes.  |                                    |

## Allegheny Technologies Retirement Savings Plan

Notes to Financial Statements

December 31, 2015

### 1. Description of the Plan

The Allegheny Technologies Retirement Savings Plan (the Plan) is a defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan's sponsor is Allegheny Technologies Incorporated (ATI, the Plan Sponsor). The following brief description of the Plan is provided for general information purposes only. Participants should refer to the summary plan description for more complete information regarding eligibility, vesting, contributions, and withdrawals.

The purpose of the Plan is to provide retirement benefits to eligible employees through company contributions and to encourage employee thrift by permitting eligible employees to defer a portion of their compensation and contribute such deferrals to the Plan. The Plan allows employees to contribute a portion of eligible wages each pay period through payroll deductions subject to Internal Revenue Code (the Code) limitations.

Effective January 1, 2015 all non-represented employees became immediately vested in all company contributions, including company match and non-elective contribution. The non-elective contribution represents 6.5% of eligible earnings while the company match is made at a rate of 50% on up to 6% of the employee's eligible earnings deferral. This same non-represented group was transferred out of the The Allegheny Technologies Retirement Savings Plan and into the ATI 401(k) Savings Plan effective November 30, 2015.

For represented participants, a company contribution for each hour worked is made to eligible participant accounts. Depending on the individual bargaining agreement, additional hourly contributions and/or a 6.5% non-elective contribution are made to eligible participant accounts. The Plan allows participants to direct their contributions, and contributions made on their behalf, to any of the investment options offered by the Plan. Unless otherwise specified by the participant, contributions are made to the QDIA (Qualified Default Investment Alternative), The Vanguard Target Retirement Fund that most closely matches the participants 65<sup>th</sup> birthday date (e.g. Vanguard Target Retirement 2030 Fund).

Participants are vested immediately in their contributions plus actual earnings thereon. For represented employees, vesting in the Company's contribution varies based on employee group classification and years of service. Participant forfeitures are used to reduce future employer contributions.

Separate accounts are maintained by the Plan Sponsor for each participating employee. Trustee fees and asset management fees charged by the Plan's trustee, Mercer Trust Company, for the administration of all funds are charged against net assets available for benefits of the respective fund. Certain other expenses of administering the Plan are paid by the Plan Sponsor. Participants may make "in-service" and hardship withdrawals as outlined in the plan document.

Active employees can borrow up to 50% of their vested account balances minus any outstanding loans. The loan amounts are further limited to a minimum of \$1,000 and a maximum of \$50,000, and an employee can obtain no more than three loans at one time. Interest rates are determined based on commercially accepted criteria, and payment schedules vary based on the type of the loan. General purpose loans are repaid over 6 to 60 months, and primary residence loans are repaid over periods up to 180 months. Principal and interest payments are made by payroll deductions.

### 2. Significant Accounting Policies

#### Use of Estimates and Basis of Accounting

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements, accompanying notes and supplemental schedules. Actual results could differ from those estimates. The financial statements are prepared under the accrual basis of accounting.

#### Investment Valuation

Certain assets of the Plan have been commingled in the Allegheny Technologies Incorporated Master Trust (the Master Trust) with the assets of various ATI sponsored defined contribution plans for investment and administrative purposes. The investment in the Master Trust represents the Plan's interest in the net assets of the Master Trust, and is stated at fair value or for fully benefit-responsive investment contracts, at contract value. Contract value is the relevant measurement attributable to fully

4

---



benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The contract value represents contributions plus earnings, less participant withdrawals and administrative expenses.

Master Trust assets as well as income/losses are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all plans, in proportion to the fair value of the assets assigned to each plan, income and expenses resulting from the collective investment of the assets of the Master Trust.

#### Payment of Benefits

Benefits are recorded when paid.

#### Notes Receivable from Participants

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses were recorded as of December 31, 2015 or 2014. If a participant ceases to make a note repayment and the Plan administrator deems the note to be a distribution, the note receivable balance is reduced and a benefit payment is recorded.

#### Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” This FASB pronouncement removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share as a practical expedient, and is effective for public businesses beginning after December 15, 2015, with early adoption permitted. ASU 2015-07 requires retrospective application by removing investments measured using net asset value as a practical expedient from the fair value hierarchy in all periods presented. The Plan has elected to early adopt this ASU in the current year and as such, these financial statements have revised disclosures to reflect this adoption.

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-12, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensuses of the Emerging Issues Task Force).” These FASB pronouncements attempt to reduce complexity in employee benefit plan accounting. Such changes include: (1) measuring and presenting fully benefit-responsive investment contracts at contract value; (2) eliminating various requirements for plan investment disclosures, such as net appreciation/depreciation by general investment by type and individual investments that represent 5% or more of net assets; and (3) a practical expedient that permits a plan to measure investments as of a month-end date closest to the plan’s fiscal year-end. ASU 2015-12 is effective for the Plan beginning after December 15, 2015, with early adoption permitted and retrospective application required. The Plan has elected to early adopt Parts I and II of this ASU in the current year and as such, these financial statements reflect this adoption.

#### 3. Investments

Certain assets of the Plan along with the assets of various other ATI sponsored plans are part of the Master Trust. The Plan’s interest in the net assets of the Master Trust was approximately 2% at December 31, 2015 and 35% at December 31, 2014. The Plan also permits self-directed investments in registered investment companies that are maintained in accounts separate from the Master Trust.

The Plan’s approximate share of the various investment types at fair value held by the Master Trust at December 31, 2015 and 2014 was as follows:

|                                 | 2015 | 2014 |
|---------------------------------|------|------|
| Registered investment companies | 2 %  | 39 % |
| Common collective trusts        | 1 %  | 31 % |

Corporate common stock      1 % 27 %

5

---

The Plan's approximate share of the various investment types at contract value held by the Master Trust at December 31, 2015 and 2014 was as follows:

|                                 | 2015 | 2014 |
|---------------------------------|------|------|
| Synthetic investment contracts  | 4 %  | 42 % |
| Guaranteed investment contracts | 4 %  | 42 % |

The following table is a summary, at fair value, of the net assets of the Master Trust by investment type as of December 31, 2015 and 2014:

|  | 2015          | 2014          |
|--|---------------|---------------|
| Common collective trusts                                 | \$463,917,622 | \$426,729,102 |
| Registered investment companies                          | 228,064,975   | 287,768,013   |
| Corporate common stocks                                  | 37,937,779    | 79,471,712    |
| Other  | 786,109       | 1,018,588     |
| Total investments held by the Master Trust at fair value | \$730,706,485 | \$794,987,415 |

The following table is a summary, at contract value, of the net assets of the Master Trust by investment type as of December 31, 2015 and 2014:

|  | 2015          | 2014          |
|--|---------------|---------------|
| Synthetic investment contracts                               | \$162,965,928 | \$165,415,452 |
| Guaranteed investment contracts                              | 33,537,563    | 36,938,462    |
| Total investments held by the Master Trust at contract value | \$196,503,491 | \$202,353,914 |

Investment income (loss) attributable to the Master Trust for the year ended December 31, 2015 was as follows:

|   |                |
|---|----------------|
| Net depreciation in fair value of investments | \$(52,372,705) |
| Income from investments at contract value     | 4,453,219      |
| Expenses                                      |                |
| Administrative expenses and other, net        | (1,635,038)    |
| Total investment loss                         | \$(49,554,524) |

The BNY Mellon Stable Value Fund (the Fund) investment alternative invests in guaranteed investment contracts (GICs), a pooled separate account, actively managed structured or synthetic investment contracts (SICs), and a common collective trust (CCT). The GICs are promises by a bank or insurance company to repay principal plus a fixed rate of return through contract maturity. SICs differ from GICs in that there are specific assets supporting the SICs and these assets are owned by the Plan. The bank or insurance company issues a wrapper contract that allows participant-directed transactions to be made at contract value. The assets supporting the SICs are comprised of government agency bonds, corporate bonds, residential mortgage backed securities, asset-backed securities (ABOs), common collective trusts (CCT), and collateralized mortgage obligations (CMOs).

Interest crediting rates on the GICs in the Fund are determined at the time of purchase. Such interest rates are reviewed and may be reset on a quarterly basis. Interest crediting rates on the SICs are either: (1) set at the time of purchase for a fixed term and crediting rate, (2) set at the time of purchase for a fixed term and variable crediting rate, or (3) set at the time of purchase and reset monthly within a "constant duration." A constant duration contract may specify a duration of 2.5 years, and the crediting rate is adjusted monthly based upon quarterly rebalancing of eligible 2.5 year duration investment instruments at the time of each resetting; in effect the contract never matures. Although it is management's intention to hold the investment contracts in the Fund until maturity, certain investment contracts provide for adjustments to contract value for withdrawals made prior to maturity. If the Plan were deemed to be in violation of ERISA or lose its tax exempt status, among other events, the issuers of the fully responsive investment contracts would have the ability to terminate the contracts and settle at an amount different from contract value.

Certain investments are subject to restrictions or limitations if the Plan Sponsor decided to entirely exit an investment. Investments in registered investment companies and the Fund may require at least 30 days prior notice to completely withdraw from the investments. The targeted date fund investments held in common collective trusts currently do not require the prior approval of the investment manager if the Plan Sponsor decides to entirely exit these investments, but prior trade date

6

---

notification is necessary to effect timely securities settlement or delivery of an investment's liquidation and transfer to another investment. The Plan had no unfunded commitments as of December 31, 2015 and 2014.

#### 4. Fair Value Measurement

In accordance with accounting standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

##### Determination of Fair Value

Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon models that primarily use, as inputs, market-based or independently sourced market parameters, including yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models may also incorporate transaction details, such as maturity. Valuation adjustments, such as liquidity valuation adjustments, may be necessary when the Plan is unable to observe a recent market price for a financial instrument that trades in inactive (or less active) markets. Liquidity adjustments are not taken for positions classified within Level 1 (as defined below) of the fair value hierarchy.

The methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. There have been no changes in the methodologies used at December 31, 2015 and 2014.

##### Valuation Hierarchy

The three levels of inputs to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

##### Valuation Methodologies

The valuation methodologies used for assets and liabilities measured at fair value, including their general classification based on the fair value hierarchy, include the following:

Cash and cash equivalents – Where the net asset value (NAV) is a quoted price in a market that is active, it is classified within Level 1 of the valuation hierarchy. In certain cases, NAV is a quoted price in a market that is not active, or is based on quoted prices for similar assets and liabilities in active markets, and these investments are classified within Level 2 of the valuation hierarchy.

Corporate common stocks – These investments are valued at the closing price reported on the major market on which the individual securities are traded. Common stock is classified within Level 1 of the valuation hierarchy.

Common collective trust funds – These investments are investment vehicles valued using the NAV, as a practical expedient, provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding.

Registered investment companies – These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Where the NAV is a quoted price in a market that is

active, it is classified within Level 1 of the valuation hierarchy.

7

---

The following table presents the financial instruments of the Master Trust at fair value by caption on the statements of net assets available for benefits and by category of the valuation hierarchy (as described above) as of December 31, 2015 and 2014. The Master Trust had no assets classified within Level 2 or Level 3 of the valuation hierarchy. There were no reclassifications of assets between levels of the fair value hierarchy for the period presented.

Master Trust assets measured at fair value on a recurring basis:

| December 31, 2015                                 | Level 1       | Total         |
|---|---------------|---------------|
| Interest in registered investment companies       | \$228,064,975 | \$228,064,975 |
| Corporate common stock                            | 37,937,779    | 37,937,779    |
| Other   | 786,109       | 786,109       |
| Other investments measured at net asset value (a) | —             | 463,917,622   |
|   | \$266,788,863 | \$730,706,485 |

| December 31, 2014                                 | Level 1       | Total         |
|---|---------------|---------------|
| Interest in registered investment companies       | \$287,768,013 | \$287,768,013 |
| Corporate common stock                            | 79,471,712    | 79,471,712    |
| Other   | 1,018,588     | 1,018,588     |
| Other investments measured at net asset value (a) | —             | 426,729,102   |
|   | \$368,258,313 | \$794,987,415 |

(a) In accordance with ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Note 3 and to the statement of assets available for benefits.

In addition to the Plan's investments in the Master Trust, the Plan held \$609,757 and \$5,114,336 in self-directed accounts as of December 31, 2015 and 2014, respectively. These self-directed accounts are invested in registered investment companies and are categorized as Level 1 assets.

#### 5. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (IRS) dated October 13, 2015 stating that the Plan is qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation. Subsequent to this issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan administrator believes that the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax-exempt.

The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken. The earliest tax year open to U.S. Federal examination is 2012.

#### 6. Plan Termination

Although it has not expressed any intent to do so, the employing companies have the right under the Plan to discontinue their contributions at any time and to terminate their respective participation in the Plan subject to the provisions of ERISA. However, no such action may deprive any participant or beneficiary under the Plan of any vested right. In the event of Plan termination, participants would become 100% vested in their employer contributions.

#### 7. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risk such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.





8. Party-In-Interest Transactions

At December 31, 2015 and 2014, the Plan held 22,556 and 543,300 shares, respectively, of common stock of ATI, the sponsoring employer, with a fair value of \$300,031 and \$21,589,487, respectively. The shares held by the Plan at December 31, 2015 and 2014 reflect the Plan's interest in the Master Trust. During the years ended December 31, 2015 and 2014, the Plan recorded investment gain/(loss) of \$843,388 and \$(357,851), respectively, related to its investment in the common stock of ATI.

Allegheny Technologies Retirement Savings Plan

EIN: 25-1792394 Plan: 004

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31, 2015

| Description  | Current Value |
|--|---------------|
| Participant loans* (4.25%, with maturities through 2020) | \$ 411,261    |
| Registered investment companies - Self-directed accounts | 609,757       |

\*Party-in-interest

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the administrators of the Plan have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

ALLEGHENY TECHNOLOGIES INCORPORATED

ALLEGHENY TECHNOLOGIES RETIREMENT SAVINGS  
PLAN

Date: June 10, 2016 By: /s/ Karl D. Schwartz  
Karl D. Schwartz  
Vice President, Controller and Chief Accounting Officer  
(Principal Accounting Officer and Duly Authorized Officer)

11  
D>

*HIPAA Transaction and Identifier Standards.* HIPAA and its implementing regulations mandate format and data content standards and provider identifier standards (known as the National Provider Identifier) that must be used in certain electronic transactions, such as claims, payment advice and eligibility inquiries. As required by PPACA, HHS has established standards that health plans must use by no later than January 1, 2014 for electronic fund transfers with providers and is in the process of establishing operating rules to promote uniformity in the implementation of each type of standardized electronic transaction. Covered Entities were required to comply with operating rules for health plan eligibility and health care claim status transactions by March 1, 2013, and must comply with operating rules for electronic funds transfers and remittance advices transactions by January 1, 2014. PPACA also requires HHS to establish standards for health claims attachment transactions.

## Table of Contents

In 2012, Covered Entities became required to comply with changes to the formats used for electronic transactions known as Version 5010. Further, HHS has published a final rule adopting updated standard code sets for diagnoses and procedures known as the ICD-10 code sets. The use of the ICD-10 code sets is required by October 1, 2014.

HHS has established a unique health plan identifier that health plans must obtain by November 5, 2014 and that Covered Entities must use to identify health plans in standardized transactions beginning on November 7, 2016. HHS also has established an other entity identifier that entities involved in health care transactions that are not health plans, providers or individuals may opt to obtain and use.

Although our systems are capable of transmitting transactions that comply with requirements currently in effect, we will be required to modify our systems to accommodate new requirements. We have been modifying and will continue to modify our systems and processes to prepare for and implement changes to the transaction standards, code sets operating rules and identifier requirements; however, we may not be successful in responding to these changes and any responsive changes we make to our systems and software may result in errors or otherwise negatively impact our service levels. In addition, the compliance dates for ICD-10 code sets, new or modified transaction standards, operating rules and identifiers may overlap, which may further burden our resources.

We also may experience complications related to supporting customers that are not fully compliant with the revised requirements as of the applicable compliance or enforcement date. Some payers and healthcare clearinghouses with which we conduct business interpret HIPAA transaction and ARRA requirements differently than we do or may require us to use legacy formats or include legacy identifiers as they transition to full compliance. For example, we continue to process transactions using legacy identifiers for non-Medicare claims that are sent to us to the extent that the intended recipients have not instructed us to suppress those legacy identifiers. Where payers or healthcare clearinghouses require conformity with their interpretations or require us to accommodate legacy transactions or identifiers as a condition of successful transactions, we seek to comply with their requirements, but may be subject to enforcement actions as a result. We continue to work with payers, providers, practice management system vendors and other healthcare industry constituents to implement the transaction standards and identifier standards. We cannot provide assurance regarding how the Centers for Medicare and Medicaid Services ( CMS ) will enforce the transaction and identifier standards or how CMS will view our practice of accommodating requests to process transactions that include legacy formats or identifiers for non-Medicare claims. Any regulatory change, clarification or enforcement action by CMS that prohibited the processing by healthcare clearinghouses or private payers of transactions containing legacy formats or identifiers could have an adverse effect on our business.

*Electronic Health Records.* ARRA provides for Medicare and Medicaid incentive payments for eligible hospitals and eligible professionals to adopt and meaningfully use EHR technology. Beginning in 2015, eligible hospitals and eligible professionals who fail to attest to the meaningful use of EHR technology will face reductions in Medicare payments. These incentives and the risk of reduced Medicare payments promote the adoption of EHR technology which may impact our business.

*Anti-Kickback and Anti-Bribery Laws.* A number of federal and state laws govern patient referrals, financial relationships with physicians and other referral sources and inducements to providers and patients, including restrictions contained in amendments to the Social Security Act, commonly known as the federal Anti-Kickback Law. The federal Anti-Kickback Law prohibits any person or entity from offering, paying, soliciting or receiving, directly or indirectly, anything of value with the intent of generating referrals of patients covered by Medicare, Medicaid or other federal healthcare programs. Violation of the federal Anti-Kickback Law is a felony. The Anti-Kickback Law contains a limited number of exceptions, and the Office of the Inspector

## Table of Contents

General of HHS has created regulatory safe harbors to the federal Anti-Kickback Law. Activities that comply precisely with a safe harbor are deemed protected from prosecution under the federal Anti-Kickback Law. Failure to meet a safe harbor does not automatically render an arrangement illegal under the Anti-Kickback Law. The arrangement, however, does risk increased scrutiny by government enforcement authorities, based on its particular facts and circumstances. Our contracts and other arrangements may not meet an exception or a safe harbor.

Many states also have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal healthcare program. The laws in this area are both broad and vague and generally are not subject to frequent regulatory or judicial interpretation. We review our practices with regulatory experts in an effort to comply with all applicable laws and regulatory requirements. However, we are unable to predict how these laws will be interpreted or the full extent of their application, particularly to services that are not directly reimbursed by federal healthcare programs, such as transaction processing services. Any determination by a state or federal regulatory agency that any of our activities or those of our customers or vendors violate any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our business, could require us to refund a portion of our service fees, could disqualify us from providing services to customers who are or do business with government programs and could have an adverse effect on our business. Even an unsuccessful challenge by regulatory authorities of our activities could result in adverse publicity and could require a costly response from us.

*False or Fraudulent Claim Laws.* We provide claims processing and other solutions to providers that relate to, or directly involve, the reimbursement of health services covered by Medicare, Medicaid, other federal healthcare programs and private payers. In addition, as part of our data transmission and claims submission services, we may employ certain edits, using logic, mapping and defaults, when submitting claims to third party payers. Such edits are utilized when the information received from providers is insufficient to complete individual data elements requested by payers.

As a result of these aspects of our business, we may be subject to, or contractually required to comply with, numerous federal and state laws that prohibit false or fraudulent claims. False or fraudulent claims include, but are not limited to, billing for services not rendered, failing to refund known overpayments, misrepresenting actual services rendered, improper coding and billing for medically unnecessary items or services. Some of these laws, including restrictions contained in amendments to the Social Security Act, commonly known as the federal Civil Monetary Penalty Law, require a lower burden of proof than other fraud, waste and abuse laws. Federal and state governments increasingly use the federal Civil Monetary Penalty Law, especially where they believe they cannot meet the higher burden of proof requirements under the various criminal healthcare fraud provisions.

In addition, the FCA and some state false claims laws provide significant civil and criminal penalties for noncompliance and can be enforced by private individuals through whistleblower or qui tam actions on behalf of the government alleging that the defendant has defrauded the government. For example, the federal Civil Monetary Penalty Law provides for penalties ranging from \$10,000 to \$50,000 per prohibited act and assessments of up to three times the amount claimed or received. Further, violations of the FCA are punishable by treble damages and penalties of up to \$11,000 per false claim, and whistleblowers may receive a share of amounts recovered. Under PPACA, civil penalties also may now be imposed for the failure to report and return an overpayment made by the federal government within 60 days of identifying the overpayment and also may result in liability under the FCA. Whistleblowers, the federal government and some courts have taken the position that entities that have violated other statutes, such as the federal Anti-Kickback Law, have thereby submitted false claims under the FCA. PPACA clarifies this issue with respect to the federal Anti-Kickback Law by providing that submission of a claim for an item or service generated in violation of the Anti-Kickback Law constitutes a false or fraudulent claim under the FCA. We rely on our customers to provide us with accurate and complete information.

From time to time, constituents in the healthcare industry, including us, may be subject to actions under the FCA or other fraud, waste and abuse provisions, such as the federal Civil Monetary Penalty Law. Errors and the unintended consequences of data manipulations by us or our systems with respect to entry, formatting, preparation or transmission of claim information may be determined or alleged to be in violation of these laws

## Table of Contents

and regulations or could adversely impact the compliance of our customers. Although we believe our editing processes are consistent with applicable reimbursement rules and industry practice, a court, enforcement agency or whistleblower could challenge these practices. In addition, we cannot guarantee that state and federal agencies will regard any billing errors we process as inadvertent or will not hold us responsible for any compliance issues related to claims we handle on behalf of providers and payers. We cannot predict the impact of any enforcement actions under the various false claims and fraud, waste and abuse laws applicable to our operations. Even an unsuccessful challenge of our practices could cause adverse publicity and cause us to incur significant legal and related costs.

*Financial Services Related Laws and Rules.* Financial services and electronic payment processing services are subject to numerous laws, regulations and industry standards. These laws may subject us, our vendors and our customers to liability as a result of our payment distribution and processing solutions. Although we do not act as a bank, we offer solutions that involve banks, or vendors who contract with banks and other regulated providers of financial services. As a result, we may be impacted by banking and financial services industry laws, regulations and industry standards, such as licensing requirements, solvency standards, requirements to maintain the privacy and security of nonpublic personal financial information and Federal Deposit Insurance Corporation deposit insurance limits. In addition, our patient billing and payment distribution and processing solutions may be impacted by payment card association operating rules, certification requirements, state prompt payment laws and other rules governing electronic funds transfers. If we fail to comply with applicable payment processing rules or requirements, we may be subject to fines and changes in transaction fees and may lose our ability to process credit and debit card transactions or facilitate other types of billing and payment solutions. Moreover, payment transactions processed using the Automated Clearing House Network are subject to network operating rules promulgated by the National Automated Clearing House Association and to various federal laws regarding such operations, including laws pertaining to electronic funds transfers, and these rules and laws may impact our billing and payment solutions. Further, our solutions may impact the ability of our payer customers to comply with state prompt payment laws. These laws require payers to pay healthcare claims meeting the statutory or regulatory definition of a "clean claim" within a specified time frame.

*United States Postal Service Laws and Regulations.* Our patient statements and payment services solutions provide mailing services primarily delivered through the United States Postal Service ( "USPS" ). Although we generally pass these costs through to our customers, postage is the largest component of our costs of operations. Postage rates are dependent on the operating efficiencies of the USPS and legislative and regulatory mandates imposed on the USPS as a result of various fiscal and political factors. Accordingly, new USPS laws or regulations, including changes in the interpretation of existing regulations, changes in the operations of USPS and recent or future rate increases, may negatively impact our business and results of operations. For example, if the recently announced measures taken by the USPS to reduce its operating costs, including the elimination of Saturday delivery, are not effective, additional postage rate increases or other operational changes may occur. We also rely on significant discounts from the basic USPS postage rate structure, which could be changed or discontinued at any time. While we cannot predict the timing or magnitude of such changes, the current economic and political environment is likely to lead to further rate increases and/or changes in the operations, policies and regulatory interpretations of the USPS. Because we may be unable to implement changes mandated by the USPS in our operations or pass future rate increases through to our customers, any failure or alleged failure to comply with applicable laws and regulations, or any adverse applications of, or changes in, the USPS laws and regulations affecting our business, could have a material adverse effect on our operating results and/or financial condition.

*Legislative changes may impede our ability to utilize our offshore service capabilities.*

In our operations, we have contractors located outside of the United States who may have access to personal health information in order to assist us in performing services for our customers. From time to time, the United States Congress considers legislation that would restrict the transmission of personal health information regarding a United States resident to any foreign affiliate, subcontractor or unaffiliated third party without adequate privacy protections or without providing notice to the identifiable individual of the transmission and an opportunity to opt out. Some of the proposals considered would have required patient consent and imposed liability on healthcare businesses arising from the improper sharing or other misuse of personal health information. Congress also has considered creating a private civil cause of action that would allow an injured party to recover damages sustained as a result of a violation of these proposed restrictions. Furthermore, a number of states have considered, or are in the process of considering, prohibitions or limitations on the disclosure of medical



## **Table of Contents**

or other personal information to individuals or entities located outside of the United States. If legislation of this type is enacted, our ability to utilize offshore resources may be impeded, and we may be subject to sanctions for failure to comply with the new mandates of the legislation. In addition, the enactment of such legislation could result in such work being performed at a lower margin of profitability, or even at a loss. Further, as a result of concerns regarding the possible misuse of personal health information, some of our customers have contractually limited our ability to use our offshore resources. Use of offshore resources may increase our risk of violating our contractual obligations to our customers to protect the privacy and security of personal health information provided to us, which could adversely impact our reputation and operating results.

***Failure by our customers to obtain proper permissions or provide us with accurate and appropriate data may result in claims against us or may limit or prevent our use of data which could harm our business.***

We require our customers to provide necessary notices and obtain necessary permissions for the use and disclosure of the information that we receive. If they do not provide necessary notices or obtain necessary permissions, then our use and disclosure of information that we receive from them or on their behalf may be limited or prohibited by state or federal privacy or other laws. Such failures by our customers could impair our functions, processes and databases that reflect, contain or are based upon such data. For example, as part of our claims submission services, we rely on our customers to provide us with accurate and appropriate data and directives for our actions. While we have implemented features and safeguards designed to maximize the accuracy and completeness of claims content, these features and safeguards may not be sufficient to prevent inaccurate claims data from being submitted to payers. In addition, such failures by our customers could interfere with or prevent creation or use of rules, analyses or other data-driven activities that benefit us. Accordingly, we may be subject to claims or liability for inaccurate claims data submitted to payers or for use or disclosure of information by reason of lack of valid notice or permission. These claims or liabilities could damage our reputation, subject us to unexpected costs and adversely affect our financial condition and operating results.

***Certain of our solutions present the potential for embezzlement, identity theft or other similar illegal behavior by our employees or contractors with respect to third parties.***

Among other things, our solutions include printing and mailing checks and/or facilitating electronic funds transfers for our payer customers and handling mail and payments from payers and from patients for many of our provider customers. These services frequently include handling original checks, payment card information, banking account information and occasionally may include currency. Even in those cases in which we do not facilitate payments or handle original documents or mail, our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties or otherwise gain access to their data or funds. If any of our employees or contractors takes, converts or misuses such funds, documents or data, or we experience a data breach creating a risk of identity theft, we could be liable for damages, and our business reputation could be damaged or destroyed. In addition, we could be perceived to have facilitated or participated in illegal misappropriation of funds, documents or data and, therefore, be subject to civil or criminal liability. Federal and state regulators may take the position that a data breach or misdirection of data constitutes an unfair or deceptive act or trade practice. We also may be required to notify individuals affected by any data breaches. Further, a data breach or similar incident could impact the ability of our customers that are creditors to comply with the federal "red flags" rules, which require the implementation of identity theft prevention programs to detect, prevent and mitigate identity theft in connection with customer accounts.

***Contractual relationships with customers that are governmental agencies or are funded by government programs may impose special burdens on us and provide special benefits to those customers.***

A portion of our revenues comes from customers that are governmental agencies or are funded by government programs. Our contracts and subcontracts may be subject to some or all of the following:

termination when appropriated funding for the current fiscal year is exhausted;



---

**Table of Contents**

termination for the governmental customer's convenience, subject to a negotiated settlement for costs incurred and profit on work completed, along with the right to place contracts out for bid before the full contract term, as well as the right to make unilateral changes in contract requirements, subject to negotiated price adjustments;

compliance and reporting requirements related to, among other things, agency specific policies and regulations, information security, equal employment opportunity, affirmative action for veterans and workers with disabilities and accessibility for the disabled;

broad audit rights; and

specialized remedies for breach and default, including setoff rights, retroactive price adjustments and civil or criminal fraud penalties, as well as mandatory administrative dispute resolution procedures instead of state contract law remedies.

In addition, certain violations of federal and state law may subject us to having our contracts terminated and, under certain circumstances, suspension and/or debarment from future government contracts. We also are subject to conflict-of-interest rules that may affect our eligibility for some federal, state and local government contracts, including rules applicable to all United States government contracts, as well as rules applicable to the specific agencies with which we have contracts or with which we may seek to enter into contracts.

***The protection of our intellectual property requires substantial resources.***

We rely upon a combination of trade secret, copyright and trademark laws, license agreements, confidentiality procedures, nondisclosure agreements and technical measures to protect the intellectual property used in our business. The steps we have taken to protect and enforce our proprietary rights and intellectual property may not be adequate. For instance, we may not be able to secure trademark or service mark registrations for marks in the United States or in foreign countries or take similar steps to secure patents for our proprietary applications. Third parties may infringe upon or misappropriate our copyrights, trademarks, service marks and other intellectual property rights. If we believe a third party has misappropriated our intellectual property, litigation may be necessary to enforce and protect those rights, which would divert management resources, would be expensive and may not effectively protect our intellectual property. As a result, if anyone infringes or misappropriates our intellectual property, it may have an adverse effect on our business, financial condition and results of operations.

***Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling certain solutions.***

We could be subject to claims that we are misappropriating or infringing intellectual property or other proprietary rights of others. These claims, even if not meritorious, could be expensive to defend and divert management's attention from our operations. If we become liable to third parties for infringing these rights, we could be required to pay a substantial damage award and to develop non-infringing technology, obtain a license or cease selling the solutions or services that use or contain the infringing intellectual property. We may be unable to develop non-infringing solutions or obtain a license on commercially reasonable terms, or at all. We also may be required to indemnify our customers if they become subject to third party claims relating to intellectual property that we license or otherwise provide to them, which could be costly.

***A write-off of all or a part of our identifiable intangible assets or goodwill would adversely affect our operating results and reduce our net worth.***

We have significant identifiable intangible assets and goodwill, which represent the excess of the total consideration transferred in connection with the Merger and subsequent acquisitions over the estimated fair value of the net assets acquired. As of December 31, 2012, we had \$1,730.1 million of identifiable intangible assets and \$1,481.9 million of goodwill on our balance sheet, which represented in excess of 85.0% of our total assets. We amortize identifiable intangible assets over their estimated useful lives which range from 1 to 20 years. We also evaluate our goodwill for impairment at least annually. We are not permitted to amortize goodwill under United States generally accepted accounting principles. In the event an

## **Table of Contents**

impairment of goodwill is identified, a charge to earnings would be recorded. Although it would not affect our cash flow, a write-off in future periods of all or a part of these assets would adversely affect our financial condition and operating results. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Goodwill and Intangible Assets of this Annual Report.

***Our success depends in part on our ability to identify, recruit and retain skilled management, including our executive officers, and technical personnel. If we fail to recruit and retain suitable candidates or if our relationship with our employees changes or deteriorates, there could be an adverse effect on our business.***

Our future success depends upon our continuing ability to identify, attract, hire and retain highly qualified personnel, including skilled management, product, technology, sales and marketing personnel, all of whom are in high demand and are often subject to competing offers. In particular, our executive officers are critical to the management of our business. The loss of any of our executive officers could impair our ability to execute our business plan and growth strategy, reduce revenues, cause us to lose customers, or lead to employee morale problems and/or the loss of key employees. Competition for qualified personnel in the healthcare information technology and services industry is intense, and we may not be able to hire or retain a sufficient number of qualified personnel to meet our requirements, or be able to do so at salary, benefit and other compensation costs that are acceptable to us. A loss of a substantial number of qualified employees, or an inability to attract, retain and motivate additional highly skilled employees required for expansion of our business, could have an adverse effect on our business. In addition, while none of our employees are currently unionized, unionization of our employees is possible in the future. Such unionizing activities could be costly to address and, if successful, likely would adversely impact our operations.

***Lengthy sales, installation and implementation cycles for some of our solutions may result in delays or an inability to generate revenues from these solutions.***

Sales of certain complex solutions and applications may result in longer sales, contracting and implementation cycles for our customers. These sales may be subject to delays due to customers' internal procedures for deploying new technologies and processes and implementation may be subject to delays based on the availability of the internal customer resources needed. The use of our solutions also may be delayed due to reluctance to change or modify existing procedures. We are unable to control many of the factors that will influence the timing of the buying decisions of potential customers or the pace at which installation and training may occur. If we experience longer sales, contracting and implementation cycles for our solutions, we may experience delays in generating, or an inability to generate revenue from these solutions, which could have an adverse effect on our financial results.

***We may be a party to legal, regulatory and other proceedings that could result in unexpected adverse outcomes.***

From time to time, we are a party to legal and regulatory proceedings, including matters involving governmental agencies with whom we do business and other proceedings arising in the ordinary course of business. In addition, there are an increasing number of investigations and proceedings in the health care industry generally that seek recovery under HIPAA, the federal Anti-Kickback Law, the FCA and other statutes and regulations applicable to our business. We also may be subject to legal proceedings under non-healthcare laws affecting our business, such as employment, banking and financial services and USPS laws and regulations. We evaluate our exposure to these legal and regulatory proceedings and establish reserves for the estimated liabilities in accordance with United States generally accepted accounting principles. Assessing and predicting the outcome of these matters involves substantial uncertainties. Unexpected outcomes in these legal proceedings, or changes in management's evaluations or predictions and accompanying changes in established reserves, could have an adverse impact on our financial results.

---

**Table of Contents**

**Risks Related to our Organization and Structure**

*We are a holding company and our principal asset is our ownership of equity interests in our subsidiaries; accordingly, we are dependent upon distributions from our subsidiaries to pay any dividends, taxes and any other expenses.*

We are a holding company and our principal asset is our ownership of equity interests in our subsidiaries. We have no independent means of generating revenue. We intend to cause our subsidiaries to make distributions to us as the direct or indirect holder of 100% of the equity interests of such subsidiaries in amounts sufficient to make payments in respect of our outstanding indebtedness, including the Term Loan Facility, the Revolving Facility and the Senior Notes, as well as payments required under our tax receivable agreements (as discussed below). To the extent that we need funds and our subsidiaries are unable or otherwise restricted from making such distributions under applicable law or regulation, as a result of the terms in our credit agreements or are otherwise unable to provide such funds, our liquidity and financial condition could be adversely affected.

*The amounts we will be required to pay under our tax receivable agreements could be significant and, in certain circumstances, could differ significantly (in both timing and amount) from the underlying tax benefits we actually realize.*

The Company is a party to tax receivable agreements which obligate the Company to make payments to certain current and former owners of the Company, including affiliates of Blackstone, Hellman & Friedman 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 (Blackstone, together with affiliates of Hellman & Friedman and certain current and former members of management, are hereinafter sometimes referred to collectively as the TRA Members ).

The payments we are required to make under the tax receivable agreements could be substantial. The amount and timing of any payments under the tax receivable agreements will vary depending upon a number of factors, including the amount and timing of the taxable income we generate in the future and the tax rate then applicable. We expect that, assuming no material changes in tax law and that we earn sufficient taxable income to realize the full potential tax benefit, future payments will range from \$0.9 million to \$69.8 million per year over the next 16 years. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding payments due under the tax receivable agreements. As of December 31, 2012, we expected total payments under the tax receivable agreements of approximately \$354.1 million. \$126.1 million of this amount, which included the initial fair value of the tax receivable agreement obligations at the time of the Merger plus accretion to date, was reflected as an obligation on the balance sheet at December 31, 2012.

There may be circumstances in which the payments under the tax receivable agreements may differ significantly (in both timing and amount) from the underlying tax benefits we actually realize. Pursuant to the tax receivable agreements, upon a covered change of control, we could be required to make payments that significantly exceed our actual cash tax savings from the tax benefits giving rise to such payments. Moreover, upon a covered change of control or initial public offering, we will have the option to terminate the tax receivable agreements in exchange for a lump-sum payment (based on an assumption that all expected potential tax benefits actually will be realized). In addition, under the tax receivable agreements, the TRA Members will not reimburse us for any payments previously made if such tax benefits are subsequently disallowed, except that excess payments made to the TRA Members will be netted against payments otherwise to be made, if any, after our determination of such excess. As a result, in such circumstances, we could make payments under the tax receivable agreements that are greater than our actual cash tax savings and may not be able to recoup those payments. Any difference between the payments we are required to make under the tax receivable agreements and the underlying tax benefits we actually realize could adversely affect our results of operations and/or our liquidity. Furthermore, because we are a holding company with no operations of our own, our ability to make payments under the tax receivable agreements is substantially dependent on the ability of our subsidiaries to make distributions to us. To the extent that we are unable to make payments under the tax receivable agreements for any reason, such payments will be deferred and will accrue interest until paid.

## **Table of Contents**

*We are controlled by the Investor Group, whose interests may conflict with ours or our creditors.*

We are controlled by the Investor Group, which includes affiliates of Blackstone and Hellman & Friedman. The Investor Group controls the election of our directors and thereby has the power to control our affairs and policies, including the appointment of management. Circumstances may occur in which the interests of the Investor Group could be in conflict with our interests. The Investor Group may have an interest in pursuing acquisitions, divestitures, financing or other transactions, including, but not limited to, the issuance of additional debt or equity and the declaration and payment of dividends, that, in their judgment, could enhance their equity investments, even though such transactions may involve risk to us or to our creditors. Additionally, the Investor Group may make investments in businesses that directly or indirectly compete with us, or may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. For information concerning our arrangements with the Investor Group, including affiliates of Blackstone and Hellman & Friedman, see Part III, Item 13 Certain Relationships and Related Transactions, and Director Independence of this Annual Report.

## **Risks Related to Our Indebtedness**

*Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under the Senior Credit Facilities or Senior Notes.*

As of December 31, 2012, our total debt was \$2,068.0 million (before the deduction of unamortized debt discount of \$51.3 million), comprised of \$1,291.2 million of senior secured indebtedness under our Term Loan Facility, \$375.0 million of indebtedness under the 2019 Notes, \$375.0 million of indebtedness under the 2020 Notes and \$26.9 million of indebtedness under our data sublicense agreement. Additionally, we had \$125.0 million of unutilized capacity under our Revolving Facility. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we will be able to take any of such actions on a timely basis or on terms satisfactory to us or at all.

Our high degree of leverage could have important consequences, including:

making it more difficult for us to make payments on the Senior Credit Facilities and the Senior Notes;

increasing our vulnerability to general economic and industry conditions;

requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

exposing us to the risk of increased interest rates as certain of our borrowings under our Senior Credit Facilities are at variable rates of interest;

restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;

limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged; and

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

increasing our cost of borrowing.

Borrowings under our Senior Credit Facilities are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness may increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Due to a floor on the floating rate index of 1.25% under the Term Loan Facility, a 0.125% increase in the floating rates on the funded amounts under our Senior Credit Facilities would have had only a negligible impact on our annual cash interest expense. Assuming all revolving loans are drawn under the Revolving Facility, a 0.125% change in the floating rate would result in an additional \$0.2 million increase in our annual cash interest expense. In January 2012, we entered into interest rate swaps that involve the exchange of floating for fixed rate interest payments that partially reduced our

## **Table of Contents**

exposure to interest rate volatility. However, we may not maintain these interest rate swaps as currently structured with respect to our variable rate indebtedness, and any future additional swaps we enter into may not fully mitigate our interest rate risk.

***Despite our substantial indebtedness, we may still be able to incur significantly more debt. The incurrence of additional debt could increase the risks associated with our substantial leverage, including our ability to service our indebtedness.***

We and our subsidiaries may be able to incur significant additional indebtedness in the future, including additional tranches of term loans, increased commitments under the Revolving Facility or the Term Loan Facility or one or more incremental Revolving Facility tranches. Although the indentures governing the Senior Notes and the credit agreement (the Senior Credit Agreement) governing the Senior Credit Facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness. If we incur additional indebtedness or other obligations, the current risks related to our substantial leverage would increase and could have a negative impact on us or our credit ratings.

The Senior Credit Agreement provides that, subject to certain conditions, we may request additional tranches of term loans, increase commitments under the Revolving Facility or the Term Loan Facility or add one or more incremental revolving facility tranches (provided that the revolving credit commitments outstanding at any time have no more than three different maturity dates) in an aggregate amount not to exceed (a) \$300.0 million plus (b) an unlimited amount at any time, subject to compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00:1.00. Availability of such additional tranches of term loans or revolving facilities and/or increased commitments is subject to, among other conditions, the absence of any default under the Senior Credit Agreement and the receipt of commitments by existing or additional financial institutions.

***The Senior Credit Agreement and the indentures governing our Senior Notes restrict our ability and the ability of most of our subsidiaries to engage in some business and financial transactions.***

The Senior Credit Agreement requires us to comply with certain financial covenants, including a quarterly maximum consolidated first lien net leverage ratio test and a quarterly minimum consolidated cash interest coverage ratio test, which financial covenants will become more restrictive over time. In addition, our Senior Credit Facilities include negative covenants that, among other things and subject to certain significant exceptions, limit our ability and the ability of our restricted subsidiaries to:

incur indebtedness or guarantees;

incur liens;

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of our subsidiaries;

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

alter the business we conduct;

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with our affiliates; and

enter into agreements limiting subsidiary dividends and distributions.

Our ability to borrow additional amounts under our Senior Credit Facilities depends upon satisfaction of these and numerous additional covenants related to our financial condition covenants. Events beyond our control can affect our ability to meet these covenants.

The indentures governing our Senior Notes also contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability and the ability of our restricted subsidiaries to:

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

incur additional indebtedness or issue certain capital stock;

incur certain liens;

make investments, loans, advances and acquisitions;

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

prepay subordinated debt;

engage in certain transactions with our affiliates; and;

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

## **Table of Contents**

If we or our restricted subsidiaries engage in certain asset sales, we generally must either invest the net proceeds from such sales in our business within a period of time, prepay certain debt (including indebtedness outstanding under our Senior Credit Facilities) or make an offer to purchase a principal amount of the Senior Notes equal to the excess net proceeds, subject to certain exceptions.

*We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.*

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Senior Credit Facilities and the Senior Notes. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, seek additional capital, restructure or refinance our indebtedness, including the Senior Credit Facilities and the Senior Notes, or sell assets. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The Senior Credit Agreement and the indentures governing our Senior Notes restrict our ability to use the proceeds from asset sales. We may not be able to consummate those asset sales to raise capital or sell assets at prices that we believe are fair and proceeds that we do receive may not be adequate to meet any debt service obligations then due. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit ratings, which could harm our ability to incur additional indebtedness.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

We do not own any real property. We lease approximately 178,000 square feet of office space in Nashville, Tennessee, that serves as our corporate headquarters, and such lease is due to expire in October 2018.

In addition to our corporate headquarters, we lease 55,000 total square feet in Nashville, Tennessee that houses a data center and adjoining office space. The initial term on our lease for this space expires in August 2025, and we have the option to extend the lease by two five-year renewal terms. Another primary data center, containing approximately 20,000 square feet of data center space, is located in Memphis, Tennessee, and is subject to a lease agreement due to expire in January 2017.

We also lease approximately 93,000 square feet of office space at a facility in Toledo, Ohio for our provider patient statement operations, which is subject to a lease agreement due to expire in February 2015. In addition, in the first quarter of 2013, we moved certain of our payer distribution services to a new location in Bridgeton, Missouri consisting of approximately 116,000 square feet, which is subject to a lease agreement due to expire in November 2023.

We also lease a number of other data centers, operations, business and sales offices in several states. We believe that our facilities are generally adequate for current and anticipated future use, although we may from time to time lease or vacate additional facilities as our operations require.

### **ITEM 3. LEGAL PROCEEDINGS**

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



**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

We are an indirect wholly owned subsidiary of Parent, which in turn is wholly owned by the Investor Group. Accordingly, there is no public trading market for our common stock.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The selected historical consolidated financial data set forth below should be read in conjunction with, and are qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes included in this Annual Report.

The following table sets forth our selected historical consolidated financial data at the dates and for the periods indicated. The selected historical consolidated financial data as of December 31, 2012 and 2011, and for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010 presented in this table, have been derived from the historical audited consolidated financial statements included in this Annual Report. The selected historical consolidated financial data as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2010, 2009 and 2008 presented in this table have been derived from our historical audited consolidated financial statements not included in this Annual Report.

On November 2, 2011, Merger Sub merged with and into Emdeon, which resulted in a change in basis of the Company's assets and liabilities. Periods prior to the Merger and this change in basis are referred to as Predecessor and periods after the Merger are referred to as Successor. As a result of the Merger and the resulting change in basis of the Company's assets and liabilities, the Predecessor and Successor period financial data is not comparable.

|   | Successor                                    |   |   | Predecessor                                  |   |   |
|---|--|---|---|--|---|---|
|   | Fiscal<br>Year Ended<br>December 31,<br>2012 | November 2, 2011<br>through<br>December 31,<br>2011 | January 1, 2011<br>through<br>November 1,<br>2011 | Fiscal<br>Year Ended<br>December 31,<br>2010 | Fiscal<br>Year<br>Ended<br>December 31,<br>2009 | Fiscal<br>Year<br>Ended<br>December 31,<br>2008 |
| (In thousands)                                      |  |   |   |  |   |   |
| <b>Statement of Operations Data:</b> <sup>(1)</sup> |  |   |   |  |   |   |
| Revenues  | \$ 1,178,271                                 | \$ 190,384  | \$ 929,264  | \$ 1,002,152                                 | \$ 918,448                                      | \$ 853,599                                      |
| Costs and expenses:                                 |  |   |   |  |   |   |
| Cost of operations                                  | 731,525                                      | 117,421   | 572,541   | 612,367                                      | 562,636   | 541,138   |
| Development and engineering                         | 31,794                                       | 5,153   | 26,090  | 30,638                                       | 30,539  | 22,391  |
| Sales, marketing, general and administrative        | 142,186                                      | 21,778  | 111,463   | 116,947                                      | 118,996   | 100,952   |
| Depreciation and amortization                       | 187,225                                      | 29,094  | 128,761   | 124,721                                      | 105,321   | 97,864  |
| Accretion   | 8,666  | 2,459   |   |  |   |   |
| Transaction related costs                           | 1,250  | 17,857  | 66,625  |  |   |   |
| Total costs and expenses                            | 1,102,646                                    | 193,762   | 905,480   | 884,673                                      | 817,492   | 762,345   |
| Operating income (loss)                             | 75,625                                       | (3,378)   | 23,784  | 117,479                                      | 100,956   | 91,254  |
| Interest expense, net                               | 172,253                                      | 29,343  | 43,201  | 61,017                                       | 70,171  | 70,754  |
| Loss on extinguishment of debt                      | 21,853                                       |   |   |  |   |   |
| Other   |  | (5,843)   | (8,036)   | (9,284)                                      | (519)   |   |
| Income (loss) before income taxes                   | (118,481)                                    | (26,878)  | (11,381)  | 65,746                                       | 31,304  | 20,500  |
| Income tax provision                                | (40,146)                                     | (10,185)  | 8,201   | 32,579                                       | 17,301  | 8,567   |
| Net income (loss)                                   | (78,335)                                     | (16,693)  | (19,582)  | 33,167                                       | 14,003  | 11,933  |
| Net income attributable to noncontrolling interest  |  |   | 5,109   | 13,621                                       | 4,422   | 2,702   |
| Net income (loss) attributable to Emdeon Inc.       | \$ (78,335)                                  | \$ (16,693)   | \$ (24,691)                                       | \$ 19,546                                    | \$ 9,581  | \$ 9,231  |

|   | As of December 31, |      |      |      |      |
|---|--------------------|------|------|------|------|
|   | 2012               | 2011 | 2010 | 2009 | 2008 |
| <b>Balance Sheet Data:</b> <sup>(1)</sup> |                    |      |      |      |      |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |              |              |              |            |            |
|--|--------------|--------------|--------------|------------|------------|
| Cash and cash equivalents                                    | \$ 31,763    | \$ 37,925    | \$ 99,188    | \$ 211,999 | \$ 71,478  |
| Total assets   | 3,767,888    | 3,832,067    | 2,491,565    | 2,229,413  | 2,000,279  |
| Total debt <sup>(2)</sup>                                    | 2,016,722    | 1,961,108    | 946,243      | 840,682    | 825,230    |
| Tax receivable obligations to related parties <sup>(3)</sup> | 126,142      | 117,810      | 142,279      | 142,044    |            |
| Total equity   | \$ 1,032,151 | \$ 1,103,789 | \$ 1,055,288 | \$ 979,869 | \$ 878,153 |

- (1) As a result of our history of business combinations, our financial position and results of operations may not be comparable for each of the periods presented.
- (2) Our debt at December 31, 2012, 2011 and 2010 is reflected net of unamortized debt discount of approximately \$51.3 million, \$58.5 million and \$42.6 million, respectively, related to original loan fees and purchase accounting adjustments to discount the debt to fair value. Total debt as of December 31, 2012, 2011 and 2010 includes an obligation of approximately \$26.9 million, \$30.6 million and \$40.3 million, respectively related to our data sublicense agreement.
- (3) In connection with the Merger, the tax receivable obligation to related parties was recorded at fair value with future payments expected to total \$354.1 million. In the Predecessor periods, the liability was recorded at total expected payments.

## **Table of Contents**

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion in conjunction with Selected Financial Data and our consolidated financial statements and related notes included elsewhere in this Annual Report. Some of the statements in the following discussion are forward-looking statements. See Cautionary Statement Regarding Forward-Looking Statements elsewhere in this Annual Report.

As a result of the 2011 Transactions and the change in basis of the Company's assets and liabilities, periods prior to the 2011 Transactions are referred to as Predecessor and periods after the 2011 Transactions are referred to as Successor.

#### **Overview**

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

During 2012, we delivered our solutions and operated our business in three business segments: (i) payer services, which provides solutions to commercial insurance companies, third party administrators and governmental payers; (ii) provider services, which provides solutions to hospitals, physicians, dentists and other healthcare providers, such as labs and home healthcare providers; and (iii) pharmacy services, which provides solutions to pharmacies, pharmacy benefit management companies, government agencies and other payers. Through our payer services segment, we provide payment cycle solutions, both directly and through our network of channel partners, that help simplify the administration of healthcare related to insurance eligibility and benefits verification, claims management, payment integrity and claims and payment distribution. Additionally, we provide consulting services through our payer services segment. Through our provider services segment, we provide revenue cycle management solutions, patient billing and payment services, government program eligibility and enrollment services and clinical information exchange capabilities, both directly and through our channel partners, that simplify providers' revenue cycle and workflow, reduce related costs and improve cash flow. Through our pharmacy services segment, we provide electronic prescribing and other electronic solutions to pharmacies, pharmacy benefit management companies and government agencies related to prescription benefit claim filing, adjudication and management.

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

Part of our strategy also includes the development and introduction of new solutions. Our new and updated solutions are likely to require us to incur development and engineering expenditures and related sales and marketing costs at levels greater than recent years' expenditures in order to successfully develop and achieve market acceptance of such solutions. We also may acquire, or enter into agreements with third parties to assist us in providing, new solutions. For example, we offer our electronic payment solutions through banks or vendors who contract with banks and other financial service firms. The costs

## **Table of Contents**

of these initiatives or the failure to achieve broad penetration in target markets with respect to new or updated solutions may negatively affect our results of operations and margins. Because newly introduced solutions generally will have lower margins initially as compared to our existing and more mature solutions, our margins and margin growth may be adversely affected on a percentage basis until these new solutions achieve scale and maturity.

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

We also expect to continue to be affected by general economic, regulatory and demographic factors affecting the healthcare industry. For several years, there has been pricing pressure in our industry, which has led and is expected to continue to lead to reduced prices for the same services. We have sought in the past and will continue to seek to mitigate pricing pressure by providing additional value-added solutions, increasing the volume of solutions we provide and managing our costs. In addition, significant changes in regulatory schemes, such as HIPAA, ARRA, PPACA and other federal healthcare policy initiatives, impact our customers' healthcare activities and generally result in increased operating costs and capital expenditures for us. In particular, we believe the PPACA will significantly affect the regulatory environment in which we and our customers operate by changing how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced federal healthcare program spending, increased efforts to link federal healthcare program payments to quality and efficiency and insurance market reforms. Also, changes in federal and state reimbursement patterns and rates can impact the revenues in certain of our business lines, particularly our government program eligibility and enrollment solutions.

Demographic trends affecting the healthcare industry, such as population growth and aging or continued high unemployment rates as a result of recent adverse economic conditions, also could affect the frequency and nature of our customers' healthcare transactional activity. The impact of such changes could impact our revenues, cost of operations and infrastructure expenses and thereby affect our results of operations and the way we operate our business. For example, an increase in the U.S. population, if such increase is accompanied by an increase in the U.S. population that has health benefits, or the aging of the U.S. population, which requires an overall increased need for healthcare services, may result in an increase in our transaction volumes which, in turn, may increase our revenues and cost of operations. Alternatively, a recurrence of the recent general economic downturn, which reduces the number of discretionary health procedures by patients, or a persistent high unemployment rate, which lessens healthcare utilization, may decrease or offset other growth in our transaction volumes, which, in turn, may adversely impact our revenues and cost of operations.

## **Recent Developments**

We reorganized our segments as payer services, revenue cycle solutions, ambulatory services and pharmacy services effective January 1, 2013. This discussion and analysis with respect to past periods reflects our segments as managed during the periods presented.

## **Table of Contents**

### **Our Revenues and Expenses**

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

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

The largest component of our cost of operations is currently postage which is incurred in our patient statements and payment services businesses and which is also a component of our revenue in those businesses. Our postage costs increase as our patient statements and payment services volumes increase and also when the USPS increases postage rates. U.S. postage rate increases, while generally billed as pass-through costs to our customers, affect our cost of operations as a percentage of revenue. In prior years, we have offset the impact of postage rate increases through cost reductions from efficiency measures, including data communication expense reductions and production efficiencies. Though we plan to continue our efficiency measures, we may not be able to offset the impact of postage rate increases in the future and, as a result, cost of operations as a percentage of revenue may increase if postage rate increases continue. Although the USPS historically has increased postage rates annually in most recent years, including January 2013, the frequency and nature of such increases may not occur as regularly in the future.

Rebates are paid to channel partners for electronic and other volumes delivered through our network to certain payers and can be impacted by the number of exclusive or other comprehensive management services agreements we execute with payers, the associated rate structure with our payer customers, the success of our direct sales efforts for provider revenue cycle management solutions and the extent to which direct connections to payers are developed by our channel partners.

Our data communication expense consists of telecommunication and transaction processing charges. Over the last several years, we have been able to reduce our data communication expense due to efficiency measures and contract pricing changes. Due to the significance of these past reductions in recent years, further reductions may have a lesser impact in future periods.

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

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

Sales, marketing, general and administrative expense (excluding corporate expense described in the next paragraph) consists primarily of personnel costs associated with our sales, account management and marketing functions and management and administrative services related to the operations of our business segments. We will likely invest more in sales and marketing in the future to further promote our new and existing solutions.

Our corporate expense relates to personnel and other costs associated with management, administrative, finance, human resources, legal, marketing, public and investor relations, compliance and other corporate service functions, as well as professional services, costs incurred in connection with acquisitions, costs incurred in connection with the 2011 Transactions, accretion expense under our tax receivable agreement obligations, certain facilities costs, insurance, regulatory compliance and other expenses related to our overall business operations.

## **Table of Contents**

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

Our depreciation and amortization expense is related to depreciation of our property and equipment, including technology assets, and amortization of intangible assets acquired and recorded in conjunction with acquisition method accounting. As a result, the amount of depreciation and amortization expense is affected by the level of our recent investment in property and equipment and the level of our recent acquisition activity. Additionally, as described under *Significant Items Affecting Comparability-Effect of the 2011 Transactions* below, our depreciation and amortization expense increased significantly subsequent to and as a result of acquisition method adjustments in connection with the 2011 Transactions.

Our interest expense consists principally of cash interest associated with our long-term debt obligations and non-cash interest associated with the amortization of borrowing costs and discounts related to debt issuance. Prior to the 2011 Transactions, interest expense also included cash interest on our prior interest rate swap agreement and non-cash interest related to discontinued cash flow hedges and changes in the fair value of our prior interest rate swap agreement during periods when the prior interest rate swap agreement was not subject to hedge accounting. Additionally, as described under *Significant Items Affecting Comparability Effect of the 2011 Transactions* below, our interest expense increased significantly subsequent to and as a result of the additional debt incurred to help finance the 2011 Transactions. If market interest rates on the variable portion of our long-term debt increase in the future, our interest expense may increase. Accordingly, as described in *Significant Items Affecting Comparability Interest Rate Swaps*, we executed three new interest rate swap agreements in January 2012 to reduce the variability of interest payments associated with our new Term Loan Facility.

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

## **Significant Items Affecting Comparability**

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

### ***Effect of the 2011 Transactions***

The 2011 Transactions have had and are expected to continue to have a significant effect on our financial condition and results of operations. These significant effects include those related to acquisition method adjustments, additional debt, 2011 Transactions related costs and income tax effects.

### **Acquisition Method Adjustments**

In connection with the Merger, we were required to adjust our assets and liabilities to their respective fair values. These adjustments included the following:

*Recognition of the fair value of tangible and intangible assets.* The fair value of our tangible and intangible assets exceeded the previously recorded amounts. As a result, for periods following the Merger, we have reported and expect to continue to report increased depreciation and amortization expense.

**Table of Contents**

*Reduction in the carrying value of our tax receivable agreement obligations to fair value.* For periods prior to the Merger, our tax receivable agreement obligations were reported at the amount that was both probable of payment and reasonably estimable. In connection with the Merger, we were required to adjust these obligations to their fair value. Our tax receivable agreement obligations fair value reflects three significant factors that were not previously considered in the carrying value: (i) the impact of a restructuring, effective December 31, 2011, to simplify our corporate structure, (ii) the exchange of units of EBS Master ( EBS Units ) for cash or stock of Parent and (iii) discounting of the tax receivable agreement obligations for the time value of money. The effect of these additional factors resulted in a significant increase in the total payments due under the tax receivable agreements. We currently expect the cumulative payments to total \$354.1 million. After discounting the obligations for the time value of money, however, the fair value of the obligations at the time of the Merger was \$115.0 million. As a result, our consolidated statement of operations for periods following the Merger will reflect accretion expense to adjust the fair value of our tax receivable agreement obligations to the total expected payments. Such accretion expense for the year ended December 31, 2012 and for the period from November 2, 2011 to December 31, 2011 totaled approximately \$8.7 million and \$2.5 million, respectively.

*Reduction to fair value of our deferred revenue related to outstanding products and services to be provided in periods following the Merger.* In connection with the Merger, we reduced our deferred revenue to the amount attributable to our remaining contractual obligations at the time of the Merger. As a result of this reduction, our revenue in periods following the Merger will be reduced, as compared to what would have been recognized without this adjustment. This reduction of revenue for the year ended December 31, 2012 and for the period from November 2, 2011 to December 31, 2011 was approximately \$4.9 million and \$2.2 million, respectively.

**Additional Debt**

In connection with the 2011 Transactions, we borrowed an aggregate of approximately \$2.0 billion, a portion of which was used to repay all amounts due under our prior credit agreements and interest rate swap agreement and to help finance the Merger. As a result of this additional debt, our interest expense in periods following the Merger has been, and will be, substantially greater than amounts reported in periods prior to the Merger.

**2011 Transactions Related Costs**

In connection with the 2011 Transactions, we also incurred certain nonrecurring charges that have been included within transaction related costs in our consolidated statement of operations. Transaction related costs for the respective periods are presented below (in thousands):

|   | <b>Successor<br/>Year Ended<br/>December 31,<br/>2012</b> | <b>November 2<br/>through<br/>December 31,<br/>2011</b> | <b>Predecessor<br/>January 1,<br/>2011 through<br/>November 1,<br/>2011</b> |
|---|---|---|---|
| Accelerated vesting of equity compensation                            | \$  | \$  | \$ 35,285   |
| Professional and other advisory fees                                  |   |   | 27,573  |
| Expenses incurred in connection with the refinancing of existing debt | 1,250   | 16,857  |   |
| Transaction-related bonuses and severance                             |   | 1,000   | 3,767   |
| <b>Total</b>  | <b>\$ 1,250</b>   | <b>\$ 17,857</b>  | <b>\$ 66,625</b>  |

**Income Tax Effects**

In connection with the 2011 Transactions, all EBS Units that were not previously controlled by us were exchanged for cash, or cash and shares of Parent. Additionally, effective December 31, 2011, we simplified our corporate structure. These transactions resulted in additional basis in our assets and will impact income tax expense and cash payments for income taxes in subsequent periods. Pursuant to our tax receivable agreement obligations, however, 85% of such tax savings must be paid to the parties to our tax receivable agreements.





**Table of Contents*****Acquisitions and Divestitures***

We actively evaluate opportunities to improve and expand our business through targeted acquisitions that are consistent with our strategy. On occasion, we also may dispose of certain components of our business that no longer fit within our overall strategy. Because of our acquisition and divestiture activity, our results of operations may not be directly comparable among periods. The following summarizes our acquisition transactions since January 1, 2010 and affected segments:

| <b>Date</b>  | <b>Business</b>  | <b>Description</b>  | <b>Affected Segment</b> |
|--------------|--|---|-------------------------|
| January 2010 | Future Vision Investment Group, L.L.C.<br>( FVTech )     | Electronic data conversion and management solutions                             | Provider; Payer         |
| March 2010   | Healthcare Technology Management Services, Inc. ( HTMS ) | Consulting solutions  | Payer                   |
| April 2010   | Data Rights  | Acquired certain additional rights to specified uses of data                    | N/A                     |
| June 2010    | Chapin Revenue Cycle Management, LLC<br>( Chapin )       | Accounts receivable denial and recovery services                                | Provider                |
| October 2010 | Chamberlin Edmonds & Associates, Inc. ( CEA )            | Government program eligibility and enrollment services                          | Provider                |
| May 2011     | EquiClaim, LLC ( EquiClaim )                             | Technology-enabled provider of healthcare audit and recovery solutions          | Payer                   |
| May 2012     | TC3 Health, Inc. ( TC3 )                                 | Technology-enabled provider of cost containment and payment integrity solutions | Payer                   |

For certain of our prior acquisitions, we agreed to transfer additional consideration to the sellers of the acquired businesses in the event that specified performance measures are achieved. United States generally accepted accounting principles generally require us to recognize the initial fair value of the expected amount to be paid under such contingent consideration arrangements as a component of the total consideration transferred. Subsequent changes in the fair value of the amounts expected to be paid, however, are generally required to be recognized as a component of net income. Such changes in fair value may occur based on changes in the expected timing or amount of payments or the effect of discounting the liability for the time value of money. We recognized an increase in pretax income of \$2.2 million, \$3.6 million and \$5.8 million in the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and the year ended December 31, 2010, respectively, related to changes in fair value of contingent consideration related to acquisitions.

***Efficiency Measures***

We evaluate and implement efficiency measures and other cost savings initiatives on an ongoing basis to improve our financial and operating performance through reorganization, cost savings, productivity improvements and other process improvements. For instance, we are consolidating our data centers, consolidating our networks and outsourcing certain information technology and operations functions. The implementation of these measures often involve upfront costs related to severance, professional fees, contractor costs and/or capital expenditures, with the cost savings or other improvements not realized until the measures are successfully completed.

**Table of Contents****Income Taxes**

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

|   | Successor                                     |   | Predecessor                                 |  |
|---|---|---|---|--|
|   | Fiscal<br>Year<br>end<br>December 31,<br>2012 | November 2<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 | Fiscal<br>Year end<br>December 31,<br>2010 |
| Statutory U.S. federal tax rate             | 35.00%  | 35.00%  | 35.00%                                      | 35.00%                                     |
| State income taxes (net of federal benefit) | (2.95)  | 3.68  | 52.49                                       | 2.78                                       |
| Meals and entertainment                     | (0.29)  | (0.65)  | (3.36)                                      | 0.63                                       |
| 2011 Transactions related costs             |   | (0.49)  | (34.77)                                     |  |
| Other                                       | (0.05)  | (0.64)  | 1.54  | (1.38)                                     |
| Tax credits                                 | 0.16  | 0.53  | 11.14                                       | (0.63)                                     |
| Equity compensation                         |   |   | (62.26)                                     | 2.06                                       |
| Non-timing basis differences                | 0.19  | 0.37  | (89.58)                                     | 12.49                                      |
| Noncontrolling interest                     |   |   | 15.71                                       | (7.20)                                     |
| Domestic production activities              | 2.85  |   |   |  |
| Uncertain tax positions                     | (1.23)  |   |   |  |
| Foreign loss not benefited                  | 0.20  | 0.09  | 2.03  | (0.34)                                     |
| Return to provision adjustments             |   |   |   | 1.34                                       |
| Change in valuation allowance               |   |   |   | 4.80                                       |
| Effective income tax rate                   | 33.88%  | 37.89%  | (72.06)%                                    | 49.55%                                     |

*Equity compensation* Prior to the Company's August 2009 initial public offering (IPO), certain members of our senior management team and board of directors held profits interest in EBS Master which had only a nominal, if any, value at the date they were originally granted. Because of this nominal value, each of the profits interest holders made an election to pay income taxes based on the fair value of the profits interest on the grant date. As a result, while the Company recognized compensation expense related to these awards as they vested, the Company received no tax deduction related to these awards.

*Non-timing basis differences* Due to our organizational structure prior to the 2011 Transactions, certain items, including a portion of our equity compensation, other comprehensive income and income of corporate consolidated subsidiaries of EBS Master, affected our book basis in EBS Master without similarly affecting our tax basis in EBS Master. In the case of our corporate consolidated subsidiaries, the Company recognized income tax expense both at the subsidiary and the parent company level for the same income (once as it was earned at the subsidiary level and once as a result of the tax effect of the difference in tax and book basis of the limited liability company which controlled those corporate subsidiaries). As a result, in periods prior to the 2011 Transactions, our effective income tax rates were impacted by these matters. In connection with the 2011 Transactions, our organizational structure was simplified and, as a result, we expect the impact of these factors to be less than prior to the 2011 Transactions.

*Noncontrolling interest* Prior to the 2011 Transactions, a portion of the interests of EBS Master were held by entities not under our control. Accordingly, we historically recognized income tax expense only for the portion of the income generated by EBS Master that was attributable to us. In connection with the 2011 Transactions, EBS Master became a wholly owned subsidiary of the Company.

*Change in valuation allowance* We record valuation allowances or reverse existing valuation allowances related to assumed future income tax benefits depending on circumstances and factors related to our business. During 2010, we recognized a capital loss for tax purposes. Because we do not anticipate being able to recognize the benefit of this capital loss in the foreseeable future, we increased our valuation allowance by approximately \$3.2 million related to this matter.

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

*State Income Taxes* Our effective tax rate for state income tax was impacted by changes in our uncertain tax positions, valuation allowances, regulatory environment and apportionment. During the period from January 1, 2011 to November 1, 2011, we recognized an income tax benefit of approximately \$8.0 million related to an interpretive change by regulatory authorities in the state of Tennessee.

## **Table of Contents**

### ***Stock-Based and Equity Compensation Expense***

In connection with the 2011 Transactions, the Company's then outstanding stock options, 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 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.

Parent assumed the 2009 Plan in connection with the 2011 Transactions 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.

During 2012, Parent granted 113,595 options to certain employees and directors 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.

Related to the equity arrangements described above, we incurred equity compensation expense of \$6.8 million, \$0.0 million, \$54.8 million (including \$35.3 associated with the acceleration of vesting of equity based awards) and \$17.6 million for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended Decembers 31, 2010, respectively.

### ***Interest Rate Swaps***

We manage economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into interest rate swap agreements to manage exposures that arise from business activities which result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our interest rate swap agreements are used to manage differences in the amount, timing and duration of our known or expected cash receipts and our known or expected cash payments principally related to our borrowings.

The financial statement effects of our interest rate swap agreements vary based on whether the agreements are designated as a hedge of future cash flows. Beginning in the fourth quarter of 2010, our prior interest rate swap agreement was not designated as a hedge, and as such, interest expense for the period from January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010 was reduced by \$8.0 million and \$3.9 million, respectively, due to changes in the fair value of this interest rate swap agreement. In connection with the 2011 Transactions, we terminated this interest rate swap agreement and no interest rate swap agreement was in place for the period from November 2, 2011 to December 31, 2011.

In January 2012, we executed three new interest rate swap agreements to reduce the variability of interest payments associated with the Term Loan Facility. For the year ended December 31, 2012, our interest rate swap agreements were designated as cash flow hedges so that changes in the fair value of the interest rate swap agreements were included within other comprehensive income.

## **Table of Contents**

### ***Amendments of the Senior Credit Agreement***

In April 2012, we amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80.0 million of additional term loans for general corporate purposes, including acquisitions. The amendments to the Senior Credit Agreement resulted in a loss on extinguishment of debt of \$21.9 million and other expenses related to fees paid to third parties of \$3.6 million during the year ended December 31, 2012. As a result of these amendments, the LIBOR-based interest rate applicable to the Senior Credit Facilities paid by the Company was generally reduced by 175 basis points.

### **Critical Accounting Estimates**

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

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

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

The following discussion of critical accounting estimates is not intended to be a comprehensive list of all of our accounting policies that require estimates and highlights only those policies that involve estimates that we believe entail a higher degree of judgment and complexity. We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and financial condition.

The discussion that follows presents information about our critical accounting estimates, as well as the effects of hypothetical changes in the material assumptions used to develop each estimate:

### ***Revenue Recognition***

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

Revenue for transaction services, payment services, patient statements and consulting services are recognized as the services are provided. Postage fees related to our payment services and patient statement volumes are recorded on a gross basis. Revenue for our government eligibility and enrollment services and accounts receivable management services generally are recognized at the time that our provider customer receives notice from the payer of a pending payment.

Cash receipts or billings in advance of revenue recognition are recorded as deferred revenues in our consolidated balance sheets.

We exclude sales and use tax from revenue in our consolidated statements of operations.

### ***Business Combinations***

We recognize the consideration transferred (i.e. purchase price) in a business combination, as well as the acquired business identifiable assets, liabilities and noncontrolling interests at their acquisition date fair value. The excess of the consideration transferred over the fair value of the identifiable assets, liabilities and noncontrolling interest, if any, is recorded as goodwill. Any excess of the fair value of the identifiable assets acquired and liabilities assumed over the consideration transferred, if any, is generally recognized within earnings as of the acquisition date. To the extent that our initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are reported for those items which are incomplete. We retroactively adjust such provisional amounts as of the acquisition date once new information is received about facts and circumstances that existed as of the acquisition date.



**Table of Contents**

The fair value of the consideration transferred, assets, liabilities and noncontrolling interests is estimated based on one or a combination of income, cost or market approaches as determined based on the nature of the asset or liability and the level of inputs available to us (i.e., quoted prices in an active market, other observable inputs or unobservable inputs). With respect to assets, liabilities and noncontrolling interest, the determination of fair value requires management to make subjective judgments as to projections of future operating performance, the appropriate discount rate to apply, long-term growth rates, etc. The effect of these judgments then impacts the amount of the goodwill that is recorded and the amount of depreciation and amortization expense to be recognized in future periods related to tangible and intangible assets acquired.

With respect to the consideration transferred, certain of our acquisitions include contingent consideration, the fair value of which is generally required to be measured each quarter until resolution of the contingency. In addition to the judgments applicable to valuing intangible and intangible assets, the determination of the fair value of the attainment of certain specified financial performance measures requires management to make subjective judgments as to the probability and timing of the attainment of certain specified financial performance measures. The determination of the fair value of the contingent consideration is particularly sensitive to judgments relative to the probability of achieving the specified financial performance measures.

***Goodwill and Intangible Assets***

Goodwill and intangible assets from our acquisitions are accounted for using the acquisition method of accounting. Intangible assets with definite lives are amortized on a straight-line basis over the estimated useful lives of the related assets generally as follows:

|                           |                |
|---------------------------|----------------|
| Customer relationships    | 10 to 20 years |
| Trade names               | 3 to 20 years  |
| Data sublicense agreement | 6 years        |
| Non-compete agreements    | 3 to 5 years   |
| Backlog                   | 1 to 2 years   |

With respect to intangible assets (excluding goodwill), we review for impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. For those assets that are held and used, we recognize an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measure the impairment loss based on the difference between the carrying amount and fair value. Assets held for sale are reported at the lower of cost or fair value less costs to sell.

We assess our goodwill for impairment annually (as of October 1 of each year) or whenever significant indicators of impairment are present. We first assess whether we can reach a more likely than not conclusion that goodwill is not impaired via qualitative analysis alone. To the extent, such a conclusion cannot be reached based on a qualitative assessment alone, we (using the assistance of a valuation specialist as appropriate) compare the fair value of each reporting unit to its associated carrying value. If the fair value of the reporting unit is less than the carrying value, then a hypothetical acquisition method allocation is performed to determine the amount of the goodwill impairment to recognize.

We have historically identified our payer, provider, and pharmacy operating segments as our reporting units. We estimate the fair value of our reporting units using a methodology that considers both income and market approaches. Specifically, for 2012, we estimated fair value of our reporting units based on the weighted average of fair value measures estimated under the income and market approaches.

Each approach requires the use of certain assumptions. The income approach requires management to exercise judgment in making assumptions regarding the reporting unit's future income stream, a discount rate and a constant rate of growth after



## **Table of Contents**

the initial five year forecast period utilized. These assumptions are subject to change based on business and economic conditions and could materially affect the indicated values of our reporting units. For example, a 100 basis point increase in our selected discount rate would result in a decrease in the indicated value of our payer, provider and pharmacy reporting units of approximately \$87.0 million, \$120.0 million and \$32.0 million, respectively. However, as the indicated fair value of each reporting unit exceeded their respective carrying values in the most recent annual impairment test by approximately \$149.0 million, \$348.0 million and \$70.0 million, respectively, we do not believe that any of our reporting units are at risk of failing step one of our annual impairment test.

The market approach requires management to exercise judgment in its selection of guideline companies, as well in its selection of the most relevant transaction multiple. Guideline companies selected are comparable to us in terms of product or service offerings, markets and/or customers, among other characteristics.

### ***Income Taxes***

We record deferred income taxes for the tax effect of differences between book and tax bases of our assets and liabilities, as well as differences related to the timing of recognition of income and expenses.

Deferred income taxes reflect the available net operating losses and the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, reversing taxable temporary differences, unsettled circumstances that, if unfavorably resolved would adversely affect utilization of our deferred tax assets, carryback and carryforward periods and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

We recognize tax benefits for uncertain tax positions at the time that we conclude the tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. The benefit, if any, is measured as the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement. Tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period that they meet the more likely than not standard, upon resolution through negotiation or litigation with the taxing authority or on expiration of the statute of limitations.

### ***Tax Receivable Agreement Obligations***

We are a party to tax receivable agreements which obligate us to make payments to certain current and former owners of the Company, including affiliates of Blackstone, Hellman & Friedman 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.

Prior to the Merger, the Company's balance sheet reflected these obligations at the amount that was both probable and reasonably estimable. In connection with the Merger, the tax receivable agreement obligations were adjusted to their fair value. The determination of the fair value required management to make assumptions as to the timing of the realization of net operating losses, the timing of payments to the TRA Members and the tax rates in effect during the life of the agreements. Changes in any of these or other factors are expected to result in increases or decreases to the gross payments due under the tax receivable agreements. For example, if our corporate tax rate were to increase by 100 basis points, the gross obligation under the tax receivable agreements would increase by approximately \$12.4 million.

The fair value of these obligations at the time of the Merger is being accreted to the amount of the gross expected obligation using the interest method. Changes in the amount of these obligations resulting from changes to either the timing or amount of cash flows are recognized in the period of change and measured using the discount rate inherent in the initial fair value of the obligations. The accretion of these obligations is classified as a separate caption in our consolidated statements of operations.

**Table of Contents****Results of Operations**

The following table summarizes our consolidated results of operations for the year ended December 31, 2012, the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and the year ended December 31, 2010, respectively.

|  | Successor        |                        |                |                        | Predecessor    |                        |                  |                        |
|--|------------------|------------------------|----------------|------------------------|----------------|------------------------|------------------|------------------------|
|  | Fiscal           |                        | November 2     |                        | January 1      |                        | Fiscal           |                        |
|  | Year Ended       |                        | through        |                        | through        |                        | Year Ended       |                        |
|  | December 31,     |                        | December 31,   |                        | November 1,    |                        | December 31,     |                        |
|  | 2012             |                        | 2011           |                        | 2011           |                        | 2010             |                        |
|  | Amount           | % of                   | Amount         | % of                   | Amount         | % of                   | Amount           | % of                   |
|  |                  | Revenue <sup>(1)</sup> |                | Revenue <sup>(1)</sup> |                | Revenue <sup>(1)</sup> |                  | Revenue <sup>(1)</sup> |
| <b>Revenues <sup>(2)</sup></b>                                       |                  |                        |                |                        |                |                        |                  |                        |
| Payer Services   | \$ 502,847       | 42.7%                  | \$ 77,725      | 40.8%                  | \$ 380,961     | 41.0%                  | \$ 430,062       | 42.9%                  |
| Provider Services  | 585,237          | 49.7                   | 98,324         | 51.6                   | 480,822        | 51.7                   | 494,199          | 49.3                   |
| Pharmacy Services  | 95,651           | 8.1                    | 15,018         | 7.9                    | 70,776         | 7.6                    | 81,794           | 8.2                    |
| Eliminations   | (5,464)          | (0.5)                  | (683)          | (0.4)                  | (3,295)        | (0.4)                  | (3,903)          | (0.4)                  |
| <b>Total revenues</b>  | <b>1,178,271</b> | <b>100.0</b>           | <b>190,384</b> | <b>100.0</b>           | <b>929,264</b> | <b>100.0</b>           | <b>1,002,152</b> | <b>100.0</b>           |
| <b>Costs of operations</b>   |                  |                        |                |                        |                |                        |                  |                        |
| Payer Services   | 332,025          | 66.0                   | 51,102         | 65.7                   | 255,437        | 67.1                   | 281,853          | 65.5                   |
| Provider Services  | 365,220          | 62.4                   | 60,710         | 61.7                   | 291,055        | 60.5                   | 304,245          | 61.6                   |
| Pharmacy Services  | 39,484           | 41.3                   | 6,252          | 41.6                   | 29,134         | 41.2                   | 30,044           | 36.7                   |
| Eliminations   | (5,204)          |                        | (643)          |                        | (3,085)        |                        | (3,775)          |                        |
| <b>Total costs of operations</b>                                     | <b>731,525</b>   | <b>62.1</b>            | <b>117,421</b> | <b>61.7</b>            | <b>572,541</b> | <b>61.6</b>            | <b>612,367</b>   | <b>61.1</b>            |
| <b>Development and engineering</b>                                   |                  |                        |                |                        |                |                        |                  |                        |
| Payer Services   | 10,927           | 2.2                    | 1,940          | 2.5                    | 8,700          | 2.3                    | 9,475            | 2.2                    |
| Provider Services  | 14,371           | 2.5                    | 2,234          | 2.3                    | 11,693         | 2.4                    | 13,993           | 2.8                    |
| Pharmacy Services  | 6,496            | 6.8                    | 979            | 6.5                    | 5,697          | 8.0                    | 7,170            | 8.8                    |
| <b>Total development and engineering</b>                             | <b>31,794</b>    | <b>2.7</b>             | <b>5,153</b>   | <b>2.7</b>             | <b>26,090</b>  | <b>2.8</b>             | <b>30,638</b>    | <b>3.1</b>             |
| <b>Sales, marketing, general and admin</b>                           |                  |                        |                |                        |                |                        |                  |                        |
| Payer Services   | 35,705           | 7.1                    | 5,870          | 7.6                    | 26,905         | 7.1                    | 28,914           | 6.7                    |
| Provider Services  | 39,937           | 6.8                    | 4,518          | 4.6                    | 38,385         | 8.0                    | 33,982           | 6.9                    |
| Pharmacy Services  | 5,810            | 6.1                    | 830            | 5.5                    | 5,078          | 7.2                    | 6,133            | 7.5                    |
| Eliminations   | (260)            |                        | (40)           |                        | (210)          |                        | (128)            |                        |
| <b>Total sales, marketing, general and admin excluding corporate</b> | <b>81,192</b>    | <b>6.9</b>             | <b>11,178</b>  | <b>5.9</b>             | <b>70,158</b>  | <b>7.5</b>             | <b>68,901</b>    | <b>6.9</b>             |
| Income from segment operations                                       | 333,760          | 28.3                   | 56,632         | 29.7                   | 260,475        | 28.0                   | 290,246          | 29.0                   |
| Corporate expense  | 92,763           | 7.9                    | 30,916         | 16.2                   | 107,930        | 11.6                   | 48,046           | 4.8                    |
| Depreciation and amortization  | 187,225          | 15.9                   | 29,094         | 15.3                   | 128,761        | 13.9                   | 124,721          | 12.4                   |
| <b>Operating income (loss)</b>                                       | <b>53,772</b>    | <b>4.6</b>             | <b>(3,378)</b> | <b>(1.8)</b>           | <b>23,784</b>  | <b>2.6</b>             | <b>117,479</b>   | <b>11.7</b>            |
| Interest expense   | 172,253          | 14.6                   | 29,343         | 15.4                   | 43,201         | 4.6                    | 61,017           | 6.1                    |
| Other (gain) loss  |                  |                        | (5,843)        | (3.1)                  | (8,036)        | (0.9)                  | (9,284)          | (0.9)                  |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |             |        |             |        |             |        |           |      |
|--|-------------|--------|-------------|--------|-------------|--------|-----------|------|
| Income (loss) before income tax provision          | (118,481)   | (10.1) | (26,878)    | (14.1) | (11,381)    | (1.2)  | 65,746    | 6.6  |
| Income tax provision (benefit)                     | (40,146)    | (3.4)  | (10,185)    | (5.3)  | 8,201       | 0.9    | 32,579    | 3.3  |
| Net income (loss)                                  | (78,335)    | (6.6)% | (16,693)    | (8.8)% | (19,582)    | (2.1)% | 33,167    | 3.3% |
| Net income attributable to noncontrolling interest |             |        |             |        | 5,109       |        | 13,621    |      |
| Net income (loss) attributable to Emdeon Inc.      | \$ (78,335) |        | \$ (16,693) |        | \$ (24,691) |        | \$ 19,546 |      |

- (1) All references to percentage of revenues for expense components refer to the percentage of revenues for such segment.
- (2) See Note 20-Segment Reporting to our consolidated financial statements included elsewhere in this Annual Report for further detail of our revenues within each reportable segment.

**Table of Contents****Year Ended December 31, 2012 (Successor) Compared to the Periods from November 2, 2011 to December 31, 2011 (Successor) and January 1, 2011 to November 1, 2011 (Predecessor)****Revenues**

Our total revenues were \$1,178.3 million for the year ended December 31, 2012 as compared to \$190.4 million for the period from November 2, 2011 to December 31, 2011 and \$929.3 million for the period from January 1, 2011 to November 1, 2011.

On an overall basis, revenues for our payer services, provider services and pharmacy services segments were adversely affected by the continued impact of lower healthcare utilization driven by continued high unemployment and other economic factors. Our revenues for the year ended December 31, 2012 and the period from November 2, 2011 to December 31, 2011 were further adversely impacted by acquisition method adjustments in connection with the 2011 Transactions which reduced the revenue that would otherwise have been recognized during the period. Additional factors affecting our revenues are described in the following paragraphs.

Our payer services segment revenue is summarized in the following table (in thousands):

|                      | Successor                                    |  | Predecessor                                 |
|----------------------|--|--|---|
|                      | Fiscal<br>Year Ended<br>December 31,<br>2012 | November 2,<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 2,<br>2011 |
| Claims management    | \$ 237,458                                   | \$ 35,004                                      | \$ 171,288                                  |
| Payment services     | 261,163                                      | 42,207   | 206,828                                     |
| Intersegment revenue | 4,226  | 514  | 2,845                                       |
|                      | \$ 502,847                                   | \$ 77,725                                      | \$ 380,961                                  |

Claims management revenues for the year ended December 31, 2012 include \$52.0 million related to the TC3 and EquiClaim acquisitions as compared to \$4.3 million and \$12.2 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively, related to the EquiClaim acquisition. Market pricing pressures on our average transaction rates continued to adversely impact our claims management revenues for all such periods.

Payment services revenues for the year ended December 31, 2012 as compared to the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect new sales and implementations, as well as the impact of the U.S. postage rate increases effective in April 2011 and January 2012.

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

|                          | Successor                                    |  | Predecessor                                 |
|--------------------------|--|--|---|
|                          | Fiscal<br>Year Ended<br>December 31,<br>2012 | November 2,<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 |
| Revenue cycle management | \$ 299,090                                   | \$ 51,123                                      | \$ 240,861                                  |
| Patient statements       | 253,673                                      | 41,927   | 213,585                                     |
| Dental                   | 31,586                                       | 5,167  | 25,926                                      |
| Intersegment revenue     | 888  | 107  | 450   |
|                          | \$ 585,237                                   | \$ 98,324                                      | \$ 480,822                                  |



## **Table of Contents**

Revenue cycle management revenues for the year ended December 31, 2012 as compared to the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect the impact of new sales and implementations, partially offset by customer attrition and the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment solutions.

Patient statements revenues for the year ended December 31, 2012 and the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect the impact of customer attrition, partially offset by new sales and implementations and the impact of the U.S. postage rate increases effective in April 2011 and January 2012.

Dental revenues for the year ended December 31, 2012 were generally consistent with those reflected in the prior year periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011.

Our pharmacy services segment revenues were \$95.7 million for the year ended December 31, 2012 as compared to \$15.0 million and \$70.8 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. This increase over the prior year periods reflects new sales and implementations.

## ***Cost of Operations***

Our total cost of operations was \$731.5 million for the year ended December 31, 2012 as compared to \$117.4 million and \$572.5 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively.

Our cost of operations for our payer services segment was approximately \$332.0 million for the year ended December 31, 2012 as compared to \$51.1 million and \$255.4 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. As a percentage of revenue, our payer services cost of operations was 66.0% for the year ended December 31, 2012 as compared to 65.7% and 67.1% for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Payer services cost of operations for the year ended December 31, 2012 reflects revenue growth in payment services, including the impact of the U.S. postage rate increases effective in April 2011 and January 2012, and the inclusion of the acquired EquiClaim and TC3 businesses. Payer services cost of operations as a percentage of revenue for the year ended December 31, 2012 reflects the inclusion of the acquired EquiClaim and TC3 businesses and operational efficiencies with respect to vendor rebates and postage. These impacts, however, were partially offset by reduced revenue associated with the acquisition method adjustments in connection with the 2011 Transactions.

Our cost of operations for our provider services segment was \$365.2 million for the year ended December 31, 2012 as compared to \$60.7 million and \$291.1 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. As a percentage of revenue, our provider services segment cost of operations was 62.4% for the year ended December 31, 2012 as compared to 61.7% and 60.5% for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Provider services costs of operations and as a percentage of revenue for the year ended December 31, 2012 reflect increased labor costs resulting from expansions in our government eligibility and enrollment services and the impact of the U.S. postage rate increases effective in April 2011 and January 2012. Provider services costs of operations and as a percentage of revenue for the year ended December 31, 2012 was further impacted by the effects of the changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment solutions and by reduced revenue associated with acquisition method adjustments in connection with the 2011 Transactions. These increases, however, were partially offset by changes in revenue mix between our patient statement services, which generally have higher costs of operations, and revenue cycle management services, which generally have lower cost of operations.

Our cost of operations for our pharmacy services segment was \$39.5 million for the year ended December 31, 2012 as compared to \$6.3 million and \$29.1 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. This increase in pharmacy services cost of operations for the year ended December 31, 2012 reflect revenue mix changes and volume growth.

## **Table of Contents**

### ***Development and Engineering Expense***

Our total development and engineering expense was \$31.8 million for the year ended December 31, 2012 as compared to \$5.2 million and \$26.1 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively, reflecting generally consistent levels of expense for all such periods.

### ***Sales, Marketing, General and Administrative Expense (Excluding Corporate Expense)***

Our total sales, marketing, general and administrative expense (excluding corporate expense) was \$81.2 million for the year ended December 31, 2012 as compared to \$11.2 million and \$70.2 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively.

Our sales, marketing, general and administrative expense for our payer services segment was approximately \$35.7 million for the year ended December 31, 2012 as compared to \$5.9 million and \$26.9 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Payer services sales, marketing, general and administrative expense for the year ended December 31, 2012 reflect the inclusion of the infrastructure costs associated with our recently acquired businesses, as well as acquisition integration costs and other strategic initiatives.

Our sales, marketing, general and administrative expense for our provider services segment was approximately \$39.9 million for the year ended December 31, 2012 as compared to \$4.5 million and \$38.4 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Provider services sales, marketing, general and administrative expense for the year ended December 31, 2012 reflects lower equity-based and other compensation as compared to the prior year periods.

Our sales, marketing, general and administrative expense for our pharmacy services segment was approximately \$5.8 million for the year ended December 31, 2012 as compared to \$0.8 million and \$5.1 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively, reflecting generally consistent levels of expense for all such periods.

### ***Corporate Expense***

Our corporate expense was \$92.8 million for the year ended December 31, 2012 as compared to \$30.9 million and \$107.9 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Corporate expense for the year ended December 31, 2012 includes loss on extinguishment of debt and other legal and professional fees incurred in connection with the April 2012 amendments to our Senior Credit Agreement of \$25.4 million, accretion of discounted tax receivable agreement obligations to the gross expected payments of \$8.7 million, consulting fees incurred in connection with strategic initiatives of \$2.6 million and monitoring and advisory fees paid to affiliates Blackstone and Hellman & Friedman of \$6.6 million. Corporate expense includes \$17.9 million and \$66.6 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively, of transaction related costs and professional and other advisory fees incurred in connection with the 2011 Transactions, including the immediate expensing of all previously unrecognized equity compensation of \$35.3 million related to the accelerated vesting of equity awards and accretion of discounted tax receivable agreement obligations to the gross expected payments of \$2.5 million.

### ***Depreciation and Amortization Expense***

Our depreciation and amortization expense was \$187.2 million for the year ended December 31, 2012 as compared to \$29.1 million and \$128.8 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Depreciation and amortization for the year ended December 31, 2012 includes additional expense attributable to 2012 and 2011 capital expenditures and acquisition activity, as well as the increased value of the tangible and intangible assets acquired in connection with the Merger.

**Table of Contents**

***Interest Expense***

Our interest expense was \$172.3 million for the year ended December 31, 2012 as compared to \$29.3 million and \$43.2 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Interest expense for the year ended December 31, 2012 includes the effect of additional debt and higher interest rates following the 2011 Transactions as compared to the prior year periods.

***Income Taxes***

Our income tax benefit was \$40.1 million for the year ended December 31, 2012 as compared to an income tax benefit of \$10.2 million and income tax expense of \$8.2 million for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to the change in our book basis versus tax basis of our investment in EBS Master, including the effect of income allocated to a noncontrolling interest, valuation allowance changes, state income tax rate changes and the impact of other permanent differences relative to pretax income.



**Table of Contents****Periods from November 2, 2011 to December 31, 2011 (Successor) and January 1, 2011 to November 1, 2011 (Predecessor) Compared to Year Ended December 31, 2010****Revenues**

Our total revenues were \$190.4 million for the period from November 2, 2011 to December 31, 2011 and \$929.3 million for the period from January 1, 2011 to November 1, 2011 as compared to \$1,002.2 million for the year ended December 31, 2010.

On an overall basis, revenues for our payer services, provider services and pharmacy services segments were adversely affected by the continued impact of lower healthcare utilization driven by continued high unemployment and other economic factors. Our revenues for the period from November 2, 2011 to December 31, 2011 were further adversely impacted by acquisition method adjustments in connection with the 2011 Transactions which reduced the revenue that would otherwise have been recognized during the period. Additional factors affecting our revenues are described in the following paragraphs.

Our payer services segment revenue is summarized in the following table (in thousands):

|                      | <b>Successor</b>    | <b>Predecessor</b> |                     |
|----------------------|---------------------|--------------------|---------------------|
|                      | <b>November 2</b>   | <b>January 1</b>   | <b>Fiscal</b>       |
|                      | <b>through</b>      | <b>through</b>     | <b>Year Ended</b>   |
|                      | <b>December 31,</b> | <b>November 1,</b> | <b>December 31,</b> |
|                      | <b>2011</b>         | <b>2011</b>        | <b>2010</b>         |
| Claims management    | \$ 35,004           | \$ 171,288         | \$ 192,385          |
| Payment services     | 42,207              | 206,828            | 234,176             |
| Intersegment revenue | 514                 | 2,845              | 3,501               |
|                      | \$ 77,725           | \$ 380,961         | \$ 430,062          |

Claims management revenues for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 include \$8.7 million and \$35.6 million, respectively, related to the EquiClaim, FVTEch and HTMS acquisitions as compared to \$19.8 million for the year ended December 31, 2010. Market pricing pressures on our average transaction rates continued to adversely impact our claims management revenues for all such periods.

Payment services revenues for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect new sales and implementations, as well as the impact of the postage rate increase effective in April 2011.

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

|                          | <b>Successor</b>    | <b>Predecessor</b> |                     |
|--------------------------|---------------------|--------------------|---------------------|
|                          | <b>November 2</b>   | <b>January 1</b>   | <b>Fiscal</b>       |
|                          | <b>through</b>      | <b>through</b>     | <b>Year Ended</b>   |
|                          | <b>December 31,</b> | <b>November 1,</b> | <b>December 31,</b> |
|                          | <b>2011</b>         | <b>2011</b>        | <b>2010</b>         |
| Revenue cycle management | \$ 51,123           | \$ 240,861         | \$ 199,873          |
| Patient statements       | 41,927              | 213,585            | 262,521             |
| Dental                   | 5,167               | 25,926             | 31,403              |
| Intersegment revenue     | 107                 | 450                | 402                 |
|                          | \$ 98,324           | \$ 480,822         | \$ 494,199          |

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

Revenue cycle management revenues for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 include \$19.6 million and \$95.6 million, respectively, related to the CEA, Chapin, and FVTech acquisitions as compared to \$31.1 million for the year ended December 31, 2010. Each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect new sales and implementations, partially offset by customer attrition.

## **Table of Contents**

Patient statements revenues for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect the impact of customer attrition, partially offset by new sales and implementations and the impact of the U.S. postage rate increase effective in April 2011.

Dental revenues for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 were generally consistent with those reflected in the prior year period.

Our pharmacy services segment revenues were \$15.0 million for the period from November 2, 2011 to December 31, 2011 and \$70.8 million for the period from January 1, 2011 to November 1, 2011 as compared to \$81.8 million for the year ended December 31, 2010. Each of the periods from November 2, 2011 to December 2, 2011 and January 1, 2011 to November 1, 2011 reflect new sales and implementations.

### ***Cost of Operations***

Our total cost of operations was \$117.4 million for the period from November 2, 2011 to December 31, 2011 and \$572.5 million for the period from January 1, 2011 to November 1, 2011 as compared to \$612.4 million for the year ended December 31, 2010.

Our cost of operations for our payer services segment was approximately \$51.1 million for the period from November 2, 2011 to December 31, 2011 and \$255.4 million for the period from January 1, 2011 to November 1, 2011 as compared to \$281.9 million for the year ended December 31, 2010. As a percentage of revenue, our payer services cost of operations was 65.7% and 67.1% for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively, as compared to 65.5% for the year ended December 31, 2010. Payer services cost of operations for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect revenue growth in payment services, including the impact of the U.S. postage rate increase effective in April 2011, and the inclusion of the acquired FVTech, HTMS and EquiClaim businesses. Payer services cost of operations as a percentage of revenue for the period November 2, 2011 to December 31, 2011 was impacted by the reduced revenue associated with the acquisition method adjustments in connection with the 2011 Transactions and throughout 2011 by changes in revenue mix between our payment services solutions and recently acquired FVTech, HTMS and EquiClaim businesses, which generally have higher cost of operations, and our historical claims management services, which generally have lower cost of operations.

Our cost of operations for our provider services segment was \$60.7 million for the period from November 2, 2011 to December 31, 2011 and \$291.1 million for the period from January 1, 2011 to November 1, 2011 as compared to \$304.2 million for the year ended December 31, 2010. As a percentage of revenue, our provider services segment cost of operations was 61.7% and 60.5% for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively, as compared to 61.6% for the year ended December 31, 2010. Provider services cost of operations for each of the periods November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect the inclusion of the CEA, Chapin and FVTech businesses acquired in 2010 and the impact of the U.S. postage rate increase effective in April 2011. Provider services cost of operations as a percentage of revenue for the period from November 2, 2011 to December 31, 2011 was impacted by the reduced revenue associated with the acquisition method adjustments in connection with the 2011 Transactions and throughout 2011 by changes in revenue mix between our patient statement services, which generally have higher costs of operations, and revenue cycle management services, which generally have lower cost of operations.

Our cost of operations for our pharmacy services segment was \$6.3 million for the period from November 2, 2011 to December 31, 2011 and \$29.1 million for the period from January 1, 2011 to November 1, 2011 as compared to \$30.0 million for the year ended December 31, 2010. Pharmacy services cost of operations for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect additional customer service personnel and costs incurred related to the launch of new solutions to pharmacies.

### ***Development and Engineering Expense***

Our total development and engineering expense was \$5.2 million for the period from November 2, 2011 to December 31, 2011 and \$26.1 million for the period from January 1, 2011 to November 1, 2011 as compared to \$30.6 million for the year ended December 31, 2010. Development and engineering expense for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflects the inclusion of the development and engineering infrastructures associated with our recently acquired businesses.

---

## **Table of Contents**

### ***Sales, Marketing, General and Administrative Expense (Excluding Corporate Expense)***

Our total sales, marketing, general and administrative expense (excluding corporate expense) was \$11.2 million for the period from November 2, 2011 to December 31, 2011 and \$70.2 million for the period from January 1, 2011 to November 1, 2011 as compared to \$68.4 million for the year ended December 31, 2010.

Our sales, marketing, general and administrative expense for our payer services segment was approximately \$5.9 million for the period from November 2, 2011 to December 31, 2011 and \$26.9 million for the period from January 1, 2011 to November 1, 2011 as compared to \$28.8 million for the year ended December 31, 2010. Payer services sales, marketing, general and administrative expense for each of the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect the inclusion of the infrastructures associated with our recently acquired businesses.

Our sales, marketing, general and administrative expense for our provider services segment was approximately \$4.5 million for the period from November 2, 2011 to December 31, 2011 and \$38.4 million for the period from January 1, 2011 to November 1, 2011 as compared to \$33.5 million for the year ended December 31, 2010. Provider services sales, marketing, general and administrative expense for each of the periods November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 reflect the inclusion of the infrastructure costs associated with our recently acquired businesses.

Our sales, marketing, general and administrative expense for our pharmacy services segment was approximately \$0.8 million for the period from November 2, 2011 to December 31, 2011 and \$5.1 million for the period from January 1, 2011 to November 1, 2011 as compared to \$6.1 million for the year ended December 31, 2010, reflecting generally consistent levels of activity for all such periods.

### ***Corporate Expense***

Our corporate expense was \$30.9 million for the period from November 2, 2011 to December 31, 2011 and \$107.9 million for the period from January 1, 2011 to November 1, 2011 as compared to \$48.6 million for the year ended December 31, 2010. Corporate expense includes \$17.9 million and \$66.6 million, respectively, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, of transaction related costs in connection with the 2011 Transactions. These transaction related costs include professional and other advisory fees, as well as the immediate expensing of all previously unrecognized equity compensation of \$35.3 million related to the accelerated vesting of equity awards, incurred in connection with the 2011 Transactions. Additionally, in connection with the Merger, we were required to adjust our tax receivable agreement obligations to their fair value. This adjustment resulted in a discount from the gross expected payments to be made under the tax receivable agreements. Corporate expense for the period from November 2, 2011 to December 31, 2011 includes the accretion of this discounted value to the gross expected payments of \$2.5 million.

### ***Depreciation and Amortization Expense***

Our depreciation and amortization expense was \$29.1 million for the period from November 2, 2011 to December 31, 2011 and \$128.8 million for the period from January 1, 2011 to November 1, 2011 as compared to \$124.7 million for the year ended December 31, 2010. Depreciation and amortization for the period from January 1, 2011 to November 1, 2011 includes additional expense attributable to 2011 and 2010 capital expenditures and acquisition activity. Depreciation and amortization for the period from November 2, 2011 to December 31, 2011 also includes the additional expense attributable to the increased value of the tangible and intangible assets acquired in connection with the Merger.

### ***Interest Expense***

Our interest expense was \$29.3 million for the period from November 2, 2011 to December 31, 2011 and \$43.2 million for the period January 1, 2011 to November 1, 2011 as compared to \$61.0 million for the year ended December 31, 2010. Interest expense for the period from November 2, 2011 to December 31, 2011 includes the impact of additional debt and higher interest rates that we incurred related to the 2011 Transactions. Interest expense for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010 was reduced by \$2.8 million, \$8.0 million and \$3.9 million, respectively, primarily as a result of a change in fair value of our interest rate swap agreement that was in effect prior to the Merger following our removal of its designation as a cash flow hedge in October 2010.

### ***Income Taxes***

Our income tax benefit was \$10.2 million for the period from November 2, 2011 to December 31, 2011. Our income tax expense was \$8.2 million for the period from January 1, 2011 to November 1, 2011 and \$32.6 million for the year ended



## **Table of Contents**

December 31, 2010. Differences between the federal statutory rate and the effective income tax rates for these periods principally relate to the change in our book basis versus tax basis of our investment in EBS Master, including the effect of income allocated to a noncontrolling interest, valuation allowance changes, state income tax rate changes and the impact of other permanent differences relative to pretax income.

## **Liquidity and Capital Resources**

### ***General***

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

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

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

### ***Cash Flows***

#### ***Operating Activities***

Cash provided by operating activities was \$78.9 million for the year ended December 31, 2012. Cash used in operating activities was \$28.8 million for the period from November 2, 2011 to December 31, 2011. Cash provided by operating activities was \$208.9 million for the period from January 1, 2011 to November 1, 2011 and \$171.8 million for the year ended December 31, 2010. Cash provided by operating activities for the year ended December 31, 2012 decreased from prior year periods primarily due to interest related to the Senior Credit Facilities, monitoring fees to affiliates of Blackstone and Hellman & Friedman and the payment of legal and other fees associated with the April 2012 amendments to the Senior Credit Agreement. Cash used in operating activities for the period from November 2, 2011 to December 31, 2011 included the payment of transaction related costs of \$48.2 million in connection with the 2011 Transactions.

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

#### ***Investing Activities***

Cash used in investing activities was \$121.1 million for the year ended December 31, 2012, \$1,951.5 million for the period from November 2, 2011 to December 31, 2011, \$91.3 million for the period from January 1, 2011 to November 1, 2011 and \$334.5 million for the year ended December 31, 2010. Cash used in investing activities for all such periods consisted of capital expenditures for property and equipment and cash consideration paid in connection with acquisitions. Cash used in investing activities for the period from November 2, 2011 to December 31, 2011 also included payments of \$1,932.9 million related to the 2011 Transactions.

**Table of Contents***Financing Activities*

Cash provided by financing activities was \$36.0 million for the year ended December 31, 2012 and \$1,811.8 million for the period from November 2, 2011 to December 31, 2011. Cash used by financing activities was \$10.4 million for the period from January 1, 2011 to November 1, 2011. Cash provided by financing activities was \$49.8 million for the year ended December 31, 2010. Cash provided by financing activities for the year ended December 31, 2012 consisted of proceeds in connection with the April 2012 amendments to our Senior Credit Agreement, partially offset by principal payments under our Senior Credit Facilities. In connection with the 2011 Transactions, during the period from November 2, 2011 to December 31, 2011, we received capital contributions from Parent of \$852.9 million and borrowed approximately \$1,903.6 million (net of borrowing costs and discount) which we used to fund the Merger and repay amounts outstanding under our prior credit facilities. During the period from January 1, 2011 to November 1, 2011, we made regularly scheduled principal payments under our prior credit facilities. During the year ended December 31, 2010, we borrowed \$97.4 million (net of borrowing costs and discount) which we used to partially finance the CEA acquisition and made regularly scheduled principal payments under our prior credit facilities and prior interest rate swap agreement.

**Long-term Debt**

In connection with the 2011 Transactions, we incurred substantial new indebtedness comprised of the Term Loan Facility, the Revolving Facility (of which \$25.0 million was borrowed at the closing of the 2011 Transactions), \$375.0 million of 2019 Notes and \$375.0 million of 2020 Notes. Proceeds of the Senior Credit Facilities and the Senior Notes were, together with other sources of funds, used to finance the Merger and repay all amounts due under our prior credit facilities.

Long-term debt as of December 31, 2012 and 2011 consisted of the following (in thousands):

|  | 2012                | 2011                |
|--|---------------------|---------------------|
| <i>Senior Credit Facilities</i>  |                     |                     |
| \$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$32,426 and \$38,160 at December 31, 2012 and December 31, 2011, respectively (effective interest rate of 5.82% and 7.79% at December 31, 2012, and December 31, 2011 respectively) | \$ 1,258,758        | \$ 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 \$8,506 and \$9,257 at December 31, 2012 and December 31, 2011, respectively (effective interest rate of 11.53% at December 31, 2012 and December 31, 2011, respectively)                               | 366,494             | 365,743             |
| \$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$10,393 and \$11,134 at December 31, 2012 and December 31, 2011 respectively (effective interest rate of 11.86% at December 31, 2012 and December 31, 2011, respectively)                           | 364,607             | 363,866             |
| <i>Obligation under data sublicense agreement</i>  | 26,863              | 30,659              |
| Less current portion   | (17,330)            | (16,034)            |
| <b>Long-term debt</b>  | <b>\$ 1,999,392</b> | <b>\$ 1,945,074</b> |

*Senior Credit Facilities*

The Senior Credit Agreement provides that, subject to certain conditions, we may request additional tranches of term loans, increase commitments under the Revolving Facility or the Term Loan Facility or add one or more incremental





---

**Table of Contents**

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) \$300.0 million plus (b) an unlimited amount at any time, subject to compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00:1.00. Availability of such additional tranches of term loans or revolving credit facilities and/or increased commitments is subject to, among other conditions, the absence of any default under the Senior Credit Agreement and the receipt of commitments by existing or additional financial institutions. Proceeds of the Revolving Facility, including up to \$30.0 million in the form of borrowings on same-day notice, referred to as swingline loans, and up to \$50.0 million in the form of letters of credit, are available to provide financing for working capital and general corporate purposes.

Borrowings under the Senior Credit Facilities bear interest at an annual rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the highest of (i) the applicable prime rate, (ii) the federal funds rate plus 0.50% and (iii) a LIBOR rate determined by reference to the costs of funds for U.S. 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 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 \$80.0 million 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.

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

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

We 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 we prepay any loans under the Term Loan Facility in connection with a repricing transaction, we must pay a prepayment premium of 1.00% of the aggregate principal amount of the loans so prepaid.

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

Certain of our 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 ( Holdings ), the Company and each of our 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 our U.S. wholly owned restricted subsidiaries and 65% of the capital stock of our foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

## **Table of Contents**

The Senior Credit Agreement requires us 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 our ability and the ability of our subsidiaries to:

incur additional indebtedness or guarantees;

incur liens;

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of subsidiaries;

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

alter the business of the Company;

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with affiliates; and

enter into agreements limiting dividends and distributions of certain subsidiaries.

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

## ***Senior Notes***

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

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

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

experience specific kinds of changes in control, we must offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. Our obligations under the Senior Notes are guaranteed on a senior basis by all of our existing and subsequently acquired or organized wholly owned U.S. restricted subsidiaries that guarantee our Senior Credit Facilities or our other indebtedness or indebtedness of any affiliate guarantor. The Senior Notes and the related guarantees are effectively subordinated to our existing and future

**Table of Contents**

secured obligations and that of our affiliate guarantors to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all existing and future indebtedness and other liabilities of any of our subsidiaries that do not guarantee the Senior Notes.

The indentures governing the Senior Notes (the Indentures ) contain 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 affirmative covenants and events of default.

**Table of Contents****Summary Disclosures about Contractual Obligations and Commercial Commitments***Contractual Obligations*

The following table presents certain minimum payments due under contractual obligations with minimum firm commitments as of December 31, 2012:

|   | Total               | Payments by Period |                             |                   | After 5 years       |
|---|---------------------|--------------------|-----------------------------|-------------------|---------------------|
|   |                     | Less than 1 year   | 1-3 years<br>(in thousands) | 3-5 years         |                     |
| Senior Credit Facilities and other long-term obligations <sup>(1)</sup> | \$ 1,318,046        | \$ 17,330          | \$ 37,752                   | \$ 36,829         | \$ 1,226,135        |
| 2019 Notes <sup>(2)</sup>   | 375,000             |                    |                             |                   | 375,000             |
| 2020 Notes <sup>(3)</sup>   | 375,000             |                    |                             |                   | 375,000             |
| Expected interest <sup>(4)</sup>  | 1,002,198           | 151,228            | 298,522                     | 292,459           | 259,989             |
| Tax receivable agreement obligations to related parties <sup>(5)</sup>  | 354,089             | 1,139              | 1,915                       | 39,749            | 311,286             |
| Operating lease obligations <sup>(6)</sup>                              | 55,676              | 8,990              | 16,895                      | 14,662            | 15,129              |
| Purchase obligations and other <sup>(7)</sup>                           | 63,179              | 7,407              | 12,406                      | 13,438            | 29,928              |
| Interest rate swap agreements <sup>(8)</sup>                            | 7,177               | 3,236              | 3,940                       |                   |                     |
| <b>Total contractual obligations<sup>(9)</sup></b>                      | <b>\$ 3,550,365</b> | <b>\$ 189,330</b>  | <b>\$ 371,430</b>           | <b>\$ 397,137</b> | <b>\$ 2,592,467</b> |

(1) Represents the principal amount of indebtedness under the Senior Credit Facilities and our data sublicense agreement.

(2) Represents the principal amount of indebtedness under the 2019 Notes without reduction for any original issue discount.

(3) Represents the principal amount of indebtedness under the 2020 Notes without reduction for any original issue discount.

(4) Consists of both interest payable under the Senior Credit Facilities, Senior Notes and imputed interest payable under our data sublicense agreement. Interest related to the Senior Credit Facilities is based on our interest rates in effect as of December 31, 2012 and assumes that we make no optional or mandatory prepayments of principal prior to their maturity. Because the interest rates under the Senior Credit Facilities are variable, actual payments may differ.

(5) Represents amount due based on facts and circumstances existing as of December 31, 2012 (without reduction for any fair value adjustment recognized in acquisition method accounting). The timing and/or amount of the aggregate payments due may vary based on a number of factors, including the amount and timing of the taxable income the Company generates in the future and the tax rate then applicable, the use of loss carryovers and the portion of payments under the tax receivable agreements constituting imputed interest or amortizable basis.

(6) Represents amounts due under existing operating leases related to our offices and other facilities.

(7) Represents contractual commitments under the transaction and advisory fee agreement we entered into with affiliates of Blackstone and Hellman & Friedman in connection with the 2011 Transactions, certain telecommunication and other supply contracts, capital leases and certain other obligations. Where our purchase commitments are cumulative over a period of time (i.e. no specified annual commitment), the table above assumes such commitments will be fulfilled on a ratable basis over the commitment period.

(8) Under our interest rate swap agreements, we receive a three-month LIBOR rate and pay a fixed rate of 1.6485% on a \$640.0 million notional amount. The amounts in the above table represent the present value of net amounts we expect to pay in the respective periods based upon the three-month LIBOR yield curve in effect as of December 31, 2012.

(9) Total contractual obligations exclude liabilities for uncertain tax positions of \$1.1 million from the above table due to the high degree of uncertainty regarding the timing of future cash outflows, if any, to the taxing authorities.

## **Table of Contents**

See the notes to our consolidated financial statements included elsewhere in this Annual Report for additional information related to our operating leases and other commitments and contingencies.

During the first quarter of 2013, we executed multi-year agreements for the purchase of hardware, software and related support with an aggregate commitment of approximately \$27.0 million over four years.

### **Off-Balance Sheet Arrangements**

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

### **Recent Accounting Pronouncements**

Our recent accounting pronouncements are summarized in Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

### **ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

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

As of December 31, 2012, we had outstanding borrowings of \$1,291.2 million under the Senior Credit Agreement. The LIBOR-based interest rate on the Term Loan Facility is LIBOR plus 3.75%. The 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). The Term Loan Facility is subject to a LIBOR floor of 1.25% and there is no LIBOR floor on the Revolving Facility.

We manage economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into interest rate swap agreements to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our interest rate swap agreements are used to manage differences in the amount, timing and duration of our known or expected cash receipts and our known or expected cash payments principally related to our borrowings.

In January 2012, we executed three interest rate swap agreements with an aggregate notional amount of \$640 million to reduce the variability of interest payments associated with the Term Loan Facility. For the year ended December 31, 2012, our interest rate swap agreements were designated as a cash flow hedge so that changes in the fair market value of the interest rate swap agreements were included within other comprehensive income.

A change in interest rates on variable rate debt may impact our pretax earnings and cash flows. However, due to a floor on the floating rate index of 1.25% under the Term Loan Facility, as of December 31, 2012, our interest rates must increase by more than 88 basis points before our interest expense or cash flows are affected. Based on our outstanding debt as of December 31, 2012, and assuming that our mix of debt instruments, interest rate swaps and other variables remain the same, the annualized effect of a one percentage point change in variable interest rates would have an annualized pretax impact on our earnings and cash flows of approximately \$0.8 million.

In the future, in order to manage our interest rate risk, we may refinance our existing debt, enter into additional interest rate swap agreements, modify our existing interest rate swap agreements or make changes that may impact our ability to treat our interest rate swaps as a cash flow hedge. However, we do not intend or expect to enter into derivative or interest rate swap transactions for speculative purposes.



**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information with respect to this Item is contained in our consolidated financial statements beginning on Page F-1 of this Annual Report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of December 31, 2012. Based upon that evaluation, our CEO and CFO concluded that, as of December 31, 2012, our disclosure controls and procedures were effective in causing material information relating to us (including our consolidated subsidiaries) to be recorded, processed, summarized and reported by management on a timely basis and to ensure the quality and timeliness of our public disclosures with SEC disclosure obligations.

**Report of Management on Internal Control Over Financial Reporting**

This Annual Report does not include a report of management s assessment regarding internal control over financial reporting or an attestation report of the Company s registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.



**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**  
**Directors and Executive Officers**

The following table sets forth information with respect to current members of our board of directors as well as information relating to our current executive officers (ages are as of March 1, 2013).

| Name                  | Age | Position  |
|-----------------------|-----|---|
| George I. Lazenby, IV | 43  | Chief Executive Officer, Director                       |
| Bob A. Newport, Jr.   | 53  | Chief Financial Officer                                 |
| T. Ulrich Brechbühl   | 49  | Executive Vice President Revenue Cycle Solutions        |
| Sajid Khan            | 48  | Executive Vice President Ambulatory Services            |
| Gregory T. Stevens    | 47  | Executive Vice President, General Counsel and Secretary |
| Gary D. Stuart        | 47  | Executive Vice President Payer Services                 |
| Kevin Mahoney         | 51  | Executive Vice President Pharmacy Services              |
| Neil P. Simpkins      | 46  | Director  |
| Michael Dal Bello     | 41  | Director  |
| Howard L. Lance       | 57  | Chairman of the Board of Directors                      |
| Philip M. Pead        | 60  | Director  |
| Pamela J. Pure        | 52  | Director  |
| Allen Thorpe          | 42  | Director  |

**George I. Lazenby, IV.** Mr. Lazenby, 43, has been our Chief Executive Officer and a member of our board of directors since March 2007. Prior to that, Mr. Lazenby served as our Executive Vice President Provider Services from December 2003 to March 2007. Mr. Lazenby served as the Chief Operating Officer of Medifax EDI, Inc. from January 2003 until it was acquired by us in December 2003. Mr. Lazenby received a B.S. in Accounting from the University of Alabama. As a member of Emdeon's senior management team, Mr. Lazenby provides our board of directors significant industry-specific experience and expertise on Emdeon's solutions. Our board of directors also benefits from Mr. Lazenby's executive leadership and management experience, gained through holding a wide array of positions of increasing responsibility within Emdeon.

**Bob A. Newport, Jr.** Mr. Newport, 53, has been our Chief Financial Officer since April 2006. Prior to that, Mr. Newport served as our Vice President of Financial Planning & Analysis from January 2005 to March 2006 and our Vice President of Finance from December 2003 to December 2004. From October 2002 to December 2003, Mr. Newport served as Chief Financial Officer of Medifax EDI, Inc. Prior to joining Medifax, Mr. Newport was with Lattimore Black Morgan & Cain, a regional CPA firm, where he practiced approximately 20 years, including the last ten as a principal. Mr. Newport is a certified public accountant and received a B.S. in Accounting from Carson-Newman College.

**Table of Contents**

**T. Ulrich Brechbühl.** Mr. Brechbühl, 49, has been our Executive Vice President – Revenue Cycle Solutions since May 2012. Prior to that, Mr. Brechbühl served as our Senior Vice President and Chief Operating Officer, Chamberlin Edmonds Division since October 2010 when Emdeon acquired CEA. Prior to the acquisition by Emdeon, Mr. Brechbühl served as the Chief Executive Officer of CEA beginning in 2007 and was its Chief Operating Officer from 2004 through 2006. Previously, Mr. Brechbühl served as the Chief Financial Officer and then as the President and Chief Executive Officer of MigraTEC, Inc., a publicly traded software business. Mr. Brechbühl attended the United States Military Academy at West Point, earning a Bachelor of Science degree in 1986. After six years of active duty as a cavalry officer, Mr. Brechbühl left the military in 1992 to attend Harvard Business School, from which he received his MBA in 1994.

**Sajid Khan.** Mr. Khan, 48, has been our Executive Vice President – Ambulatory Services since May 2012. Prior to that, Mr. Khan served as our Chief Operating Officer – eServices since May 1999. Mr. Khan received a B.A. in Accountancy from Northern Illinois University.

**Gregory T. Stevens.** Mr. Stevens, 47, has been our Executive Vice President, General Counsel and Secretary since July 2008. Prior to joining us, Mr. Stevens served as Chief Administrative Officer, General Counsel, Secretary and Chief Compliance Officer of Spheris Inc. from July 2003 to June 2008. During February 2010, Spheris filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code in order to facilitate the sale of Spheris pursuant to Section 363 thereunder to MedQuist Holdings, Inc. From March 2002 to June 2003, Mr. Stevens served as Acting General Counsel and Secretary of Luminex Corporation. From 1996 to 2002, Mr. Stevens served as the Senior Vice President and General Counsel for Envoy Corporation. Prior to joining Envoy, Mr. Stevens practiced corporate and securities law with Bass, Berry & Sims PLC. Mr. Stevens received a B.A. in Economics and History and a J.D. from Vanderbilt University.

**Gary D. Stuart.** Mr. Stuart, 47, has been our Executive Vice President – Payer Services since March 2006. Prior to that, Mr. Stuart served as our Executive Vice President of Payer and Vendor Strategy since August 2005. Mr. Stuart also served as Senior Vice President of Sales in the Transaction Services Division of WebMD Envoy from July 2002 to February 2005 and in various other capacities with WebMD since July 1998. Mr. Stuart received a B.A. in Business Administration from Texas State University.

**Kevin Mahoney.** Mr. Mahoney, 51, has been our Executive Vice President – Pharmacy Services since August 2012. Prior to that, Mr. Mahoney served as our Senior Vice President – Pharmacy Services since April 2012. In addition, Mr. Mahoney served as our Vice President, Finance/Operations – Pharmacy Services since July 2009 when Emdeon acquired eRx. Prior to the acquisition by Emdeon, Mr. Mahoney served as Vice President and Chief Financial Officer of eRx from 2003 to 2009. Mr. Mahoney received a B.A. in Accounting from Belmont Abbey College and an M.B.A. from Pace University.

**Neil P. Simpkins.** Mr. Simpkins, 46, became a member of our board of directors in November 2011 and served as the chairman of our board of directors through February 28, 2013. Mr. Simpkins has served as a Senior Managing Director in the Private Equity Group of Blackstone since December 1999. From 1993 until the time he joined Blackstone, Mr. Simpkins was a Principal at Bain Capital. Prior to joining Bain Capital, Mr. Simpkins was a consultant at Bain & Company in London and in the Asia Pacific region. He currently serves, or since February 1, 2008 has served, as chairman and then lead director of TRW Automotive Holdings Corp., as lead director of Vanguard Health Systems, as a member of the board of representatives of Team Finance LLC and as a member of the board of directors of Apria Healthcare Group Inc., Summit Materials, LLC, Team Health Holdings, Inc. and Vanguard Health Systems. Mr. Simpkins graduated with honors from Oxford University and received an M.B.A. from Harvard Business School. Mr. Simpkins has significant financial and investment experience and possesses executive management and strategic skills gained through his experience with other Blackstone portfolio companies. Mr. Simpkins also brings to us his additional board experience with several public and private companies which helps us informally benchmark our practices.

**Michael Dal Bello.** Mr. Dal Bello, 41, became a member of our board of directors in November 2011. Mr. Dal Bello is a Managing Director in the Private Equity Group of Blackstone and has been with the firm since 2002. While at Blackstone, Mr. Dal Bello has been actively involved in Blackstone’s healthcare investment activities. Mr. Dal Bello worked at Hellman & Friedman from 1998 to 2000 and prior thereto at Bain & Company. He currently serves, or since February 1, 2008 has served, on the board of representatives or directors of Apria Healthcare Group Inc., Alliant Holdings I, Inc., Team Health Holdings, Inc., Vanguard Health Systems, Biomet, Inc., Global Tower Partners, Catalent Pharma Solutions, Inc. and Sithe Global. Mr. Dal Bello received an M.B.A. from Harvard Business School. Mr. Dal Bello has been engaged in the private equity industry for over 15 years and brings to us his financial and investment experience that he gained while serving on boards of representatives or directors of other Blackstone portfolio companies.

**Table of Contents**

**Howard L. Lance.** Mr. Lance, 57, has served on our board of directors since November 2012 and became the chairman of the board of directors on February 28, 2013. He served as the Chairman, President and Chief Executive Officer of Harris Corporation, an international communications and information technology company serving government and commercial markets in more than 150 countries, from January 2003 until December 2011. From July 2001 until October 2002, Mr. Lance was the President of NCR Corporation, an information technology services provider, and Chief Operating Officer of its Retail and Financial Group. Prior to that, Mr. Lance spent 17 years with Emerson Electric Company, an electronic products and systems company, where he held increasingly senior management positions with different divisions of the Company. Mr. Lance serves as a director of Eastman Chemical Company, Stryker Corporation and Summit Materials LLC. Mr. Lance served as a director of Harris Stratex Networks (now Aviat Networks, Inc.) from 2007 to 2009. Mr. Lance received a B.S. in Industrial Engineering from Bradley University and an M.S. in Management from Purdue University. Mr. Lance brings to our board of directors extensive leadership and management skills developed through his prior service as a senior executive officer and director of large, public companies.

**Philip M. Pead.** Mr. Pead, 60, rejoined our board of directors in November 2012, having previously served on our board from February 2009 through August 2011. Mr. Pead has served as President and Chief Executive Officer of Progress Software Corp. since December 2012. Mr. Pead previously served as Executive Chairman and Interim Chief Executive Officer of Progress Software Corp. from November 2012 to December 2012, and Non-executive Chairman beginning in July 2012, having joined the Progress Software Corp. board of directors in July 2011. Prior to such time, Mr. Pead served as Chairman of the board of directors of Allscripts Healthcare Solutions, Inc. from August 2010 through April 2012 following Allscripts' acquisition of Eclipsys Corporation where he had served as President and Chief Executive Officer since May 2009. Mr. Pead also served as a director of Eclipsys since February 2009. Mr. Pead served as the managing partner of Beacon Point Partners LLC from March 2007 to May 2009. Prior to that, he served as President and Chief Executive Officer of Per-Se Technologies, Inc. from November 2000 until January 2007. Mr. Pead served as the Chairman of Per-Se beginning in May 2003, having joined the company in 1997. Mr. Pead received a B.S. in Economics from the University of London and a Business Administration Diploma from Harrow College of Technology. As the former chairman of the board of directors and executive officer of publicly-traded healthcare technology companies, Mr. Pead brings to Emdeon and our board of directors his leadership skills and intimate knowledge of the industry. Mr. Pead also has significant and varied management expertise, developed in roles of increasing responsibility throughout his career. In particular, while at Per-Se, Mr. Pead was instrumental in a corporate strategy that included improving the integration of acquired companies, improving operating efficiencies and margins, managing complex regulatory compliance matters and growing the business, all of relevance to Emdeon.

**Pamela J. Pure.** Ms. Pure, 52, has served on our board of directors since January 2012. Ms. Pure has served as Chief Executive Officer of HealthMEDX, LLC, a supplier of software solutions to the extended care industry, since December 2011. From April 2004 to March 2009, Ms. Pure served as Executive Vice President, McKesson Corporation and President, McKesson Technology Solutions. Prior to that, Ms. Pure served as Chief Operating Officer of McKesson Corporation from January 2003 to March 2004 and was the Group President & Chief Technology Officer of McKesson Information Solutions from March 2001 to December 2002. Ms. Pure received a B.S. in Public Health from the University of North Carolina at Chapel Hill. Ms. Pure benefits us by bringing more than 25 years of experience in healthcare information technology and services industry.

**Allen R. Thorpe.** Mr. Thorpe, 42, has been a member of our board of directors since September 2008. Mr. Thorpe joined Hellman & Friedman in 1999 and has served as a Managing Director of Hellman & Friedman since 2004. At Hellman & Friedman, his primary areas of focus are healthcare and financial services. Prior to joining Hellman & Friedman in 1999, Mr. Thorpe was a Vice President with Pacific Equity Partners and a Manager at Bain & Company. Mr. Thorpe serves as a director of Pharmaceutical Product Development, Inc. and Sheridan Holdings, Inc., lead director at LPL Investment Holdings, Inc., and is a member of the advisory boards of Artisan Partners Holdings LP and Grosvenor Capital Management Holdings, LLP. Mr. Thorpe received an A.B. from Stanford University and an M.B.A. from Harvard Business School. As a member of our board of directors, Mr. Thorpe contributes his strategic, financial, healthcare and capital markets expertise through his career with equity investment firms. Mr. Thorpe also contributes insights on board leadership developed through his service on several boards of Hellman & Friedman's portfolio companies.

## **Table of Contents**

### **Section 16(a) Beneficial Ownership Reporting Compliance**

None of our directors, executive officers or beneficial owners of more than 10% of our equity securities is required to file reports pursuant to Section 16(a) of the Exchange Act, with respect to their relationship with us because we do not have equity securities registered pursuant to Section 12 of the Exchange Act.

### **Governance Matters**

#### ***Composition of our Board of Directors***

Pursuant to the stockholders' agreement among Emdeon, Parent, the Investor Group and the other equity holders of Parent, including certain members of our senior management ( "Stockholders' Agreement" ), Parent's board of directors must be comprised of at least five members, three of whom are designated by Blackstone, one of whom is designated by Hellman & Friedman and one of whom is our chief executive officer. Blackstone may increase the size of Parent's board of directors to seven directors to accommodate the election of two independent directors to be selected by Blackstone in consultation with Hellman & Friedman. According to the terms of the Stockholders' Agreement, we are required to take all necessary action to cause the persons constituting Parent's board of directors to be appointed as members of our board of directors unless Blackstone or Hellman & Friedman otherwise elects. In the event that Hellman & Friedman ceases to hold 25% or more of its initial ownership interest in Parent, it will no longer be entitled to designate a director for election to Parent's or our board of directors or to a consultation right with respect to the election of independent directors. Blackstone has the right to appoint and remove (in consultation with Hellman & Friedman) all independent directors on Parent's and our boards of directors and fill vacancies created by reason of death, removal or resignation of all such independent directors. In addition, for so long as certain investment funds associated with Goldman, Sachs & Co. continue to hold, together with their affiliates, at least 10% of the 2020 Notes, we have granted GS Mezzanine Partners V Institutional, L.P. a right to (i) designate a non-voting observer to our board of directors, (ii) consult with our management on matters relating to our operations, (iii) access our facilities, properties, books and records and (iv) receive additional information as it may reasonably request from time to time.

In January 2012, the size of our board of directors was increased to six, and Ms. Pure was elected to serve as an independent director on each of Parent's and our boards of directors. In November 2012, the size of our board of directors was increased to seven. At such time, Mr. Lance was elected to serve on each of Parent's and our board of directors as a designee of Blackstone and Mr. Pead was also elected to serve as an independent director on each of Parent's and our board of directors.

#### ***Board Committees***

Pursuant to the Stockholders' Agreement, our board of directors has three standing committees: an audit committee, a compensation committee and a nominating committee. Each of the standing committees operates pursuant to a written charter. The following is a brief description of the standing committees of our board of directors, including their membership and responsibilities.

***Audit Committee.*** The audit committee assists our board of directors in fulfilling its fiduciary oversight responsibilities by reviewing: (i) the integrity of financial information, (ii) the performance of our internal audit function and systems of internal controls and (iii) our compliance with legal and regulatory requirements. In addition, the audit committee has direct responsibility for the appointment, compensation, retention (including termination) and oversight of our independent registered public accounting firm. The audit committee also reviews and approves related party transactions in accordance with our Related Party Transaction Policy. See Part III, Item 13, "Certain Relationships and Related Transactions, and Director Independence - Related Party Transactions Policies and Procedures" of this Annual Report.

The audit committee is currently comprised of Messrs. Dal Bello (chair), Pead and Thorpe. Because we do not have and are not currently seeking to list any securities on a national securities exchange or on an automated quotation system, our board of directors is not required to have on the audit committee a person who qualifies under the rules of the SEC as an "audit committee financial expert" or as having accounting or financial management expertise under the similar rules of the national securities exchanges. While the audit committee has not designated any of its members as an audit committee financial expert, we believe that each of the current members of the audit committee is fully qualified to address any accounting, financial reporting or audit issues that may come before the audit committee.

## **Table of Contents**

*Compensation Committee.* The compensation committee (i) reviews and recommends policies relating to compensation and benefits of our directors, employees and certain other persons providing services to us and (ii) is responsible for reviewing and approving the compensation of our senior management. The compensation committee is currently comprised of Messrs. Simpkins (chair), Dal Bello and Thorpe.

*Nominating Committee.* The nominating committee (i) assists our board of directors in identifying and recommending individuals qualified to serve as directors of the Company, (ii) recommends to our board of directors director nominees for each committee of our board of directors, (iii) reviews and considers candidates who may be suggested by any of our directors or executive officers, or by any of our stockholders, if made in accordance with the Stockholders Agreement, our certificate of incorporation, bylaws and applicable law and (iv) reviews succession plans relating to senior management. The nominating committee is currently comprised of Messrs. Simpkins (chair), Lance and Thorpe.

## **Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees, including the principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions. The Code of Business Conduct and Ethics is available on the Investors page of our website at <http://investors.emdeon.com> under the heading Corporate Governance. We plan to post any amendments to the Code of Business Conduct and Ethics on our website.

## **ITEM 11. EXECUTIVE COMPENSATION Compensation Discussion and Analysis**

### *Overview*

The following discussion analyzes our executive compensation program with respect to our named executive officers for the year ended December 31, 2012 and the material elements of the compensation packages awarded to such officers. The individuals whose compensation is discussed below are our Chief Executive Officer, George I. Lazenby, IV; our Executive Vice President Chief Financial Officer, Bob A. Newport, Jr.; our Executive Vice President Revenue Cycle Solutions, T. Ulrich Brechbühl; our Executive Vice President Ambulatory Services, Sajid Khan; and our Executive Vice President Payer Services, Gary D. Stuart. We collectively refer to these individuals in the following discussion as our named executive officers.

### *The Role of the Compensation Committee*

The responsibilities of our compensation committee include:

reviewing and approving corporate goals and objectives relevant to the compensation of the Company's senior management;

evaluating the performance of the Company's senior management;

determining and approving compensation of the Company's senior management;

reviewing and approving the following as they affect the Company's senior management: all cash-based and equity-based incentive awards, employment agreements, severance arrangements, any change in control agreements and any special or supplemental compensation and benefits;

overseeing and administering our equity incentive plans, our 401(k) Plan and Health and Welfare Plan;

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

making recommendations to our board of directors with respect to compensation philosophy and policies for director compensation;

reviewing periodically the Company's compensation policies and practices to ensure that they properly incentivize employees to act in the long-term best interests of the Company and do not encourage excessive risk taking;

## **Table of Contents**

reviewing and discussing with management the compensation discussion and analysis, when required by SEC rules for inclusion in our applicable filings;

reviewing and discussing with management the compensation committee report, when required by SEC rules for inclusion in our applicable filings; and

monitoring compensation matters and retaining appropriate advisors to assist in the evaluation of such compensation matters.

The compensation committee works directly with our chief executive officer to set annual compensation of each of our named executive officers other than our chief executive officer. To this end, our chief executive officer completes an evaluation of each such named executive officer, makes recommendations regarding the compensation of such officer and presents his evaluations and compensation recommendations to the compensation committee.

After considering our chief executive officer's evaluations and recommendations and such other factors as the nature and responsibilities of each named executive officer's position, the named executive officer's experience, Emdeon's achievement of corporate goals, the named executive officer's achievement of individual goals and competitive industry compensation, the compensation committee sets the annual compensation of our named executive officers. The compensation committee then sets the compensation of our chief executive officer in a meeting at which the chief executive officer is not present. The compensation for each of our named executive officers is set and recommended for adoption at meetings of the compensation committee generally held in the first quarter of each year.

### ***Compensation Philosophy and Objectives***

Our compensation program is centered around a pay-for-performance philosophy and is designed to reward our named executive officers for their abilities, experience and efforts. We believe our solutions reflect the individual and combined knowledge and performance that our compensation programs are structured to reward. Our ability to attract, retain and motivate the highly-qualified and experienced professionals who are vital to our success as a company is directly tied to the compensation programs we offer.

We believe that having compensation programs designed to align executive officers' interests with those of Emdeon in achieving positive business results and to reinforce accountability is the cornerstone to successfully implementing and achieving our strategic plans. In determining the compensation of our named executive officers, we are guided by the following key principles:

*Competitiveness of Compensation.* Compensation should be responsive to the competitive marketplace so that we continue to be able to attract, retain and motivate talented executives.

*Accountability for Overall Business Performance.* A portion of compensation should be tied to our overall performance so that our named executive officers are held accountable through their compensation for the performance of Emdeon as a whole.

*Accountability for Individual Performance.* A portion of compensation should be tied to the named executive officer's own individual performance to encourage and reflect individual contributions to our performance.

*Alignment with Stockholder Interests.* A portion of compensation should be tied to our financial performance through equity awards to align our named executive officers' interests with those of our stockholders.

We seek to maintain a performance-oriented culture and a compensation approach that rewards our named executive officers when we achieve our goals and objectives, while putting at risk an appropriate portion of their compensation against the possibility that our goals and objectives may not be achieved. Consistent with this philosophy, we have sought to create an executive compensation package that balances short-term versus long-term components, cash versus equity elements and fixed versus contingent payments in ways that we believe are most appropriate to motivate our named executive officers.

## **Table of Contents**

### ***Overview of Components of Compensation***

Compensation for our named executive officers consists of the following key components:

base salary;

annual cash bonuses; and

equity-based awards.

The first component of named executive officer compensation is base salary, which is intended to secure the services of the executive and compensate him for his functional roles and responsibilities.

The second component is an annual cash bonus opportunity, which is based upon a combination of Company and individual performance. These cash bonus opportunities are intended to link executive pay directly to achievement of annual Company operating and/or other performance objectives. We believe this compensation component aligns the interests of our named executive officers with the interests of our stockholders in the pursuit of short- to medium-term performance that should create value for our stockholders.

The third component is equity-based awards which provide a long-term incentive component to named executive officer compensation packages. Equity-based awards granted to our named executive officers align a portion of our named executive officers' compensation to the interests of our investors and to each other, further reinforcing collaborative efforts for their mutual success. Equity-based compensation also fosters a long-term commitment from our named executive officers to the Company and balances the shorter-term cash components of compensation that we provide.

In addition, our named executive officers are eligible to receive the same benefits that we provide and to participate in all plans that we offer to other full-time employees, including health and welfare benefits and participation in our 401(k) Savings Plan.

We also provide our named executive officers with severance payments and benefits in the event of an involuntary or, in certain cases, constructive termination of employment without cause and accelerated equity award vesting in connection with a change in control of the Company.

### ***Base Salary***

We provide each named executive officer with a base salary for the services that the executive officer performs for us. This compensation component constitutes a stable element of compensation while other compensation elements are variable. Base salaries are reviewed annually and may be increased in light of the individual past performance of the named executive officer, company performance, any change in the executive's position within our business, the scope of his responsibilities and any changes thereto and his tenure with the Company.

During 2012, the base salary for Messrs. Lazenby, Newport, Brechbühl, Khan and Stuart was \$500,000, \$325,000, \$350,000, \$325,000 and \$325,000, respectively. For 2012, base salaries comprised 5%, 9%, 9%, 9% and 9% of the total compensation for Messrs. Lazenby, Newport, Brechbühl, Khan and Stuart, respectively. Effective in March 2013, Mr. Lazenby received an increase in annual base salary from \$500,000 to \$700,000, Mr. Brechbühl received an increase from \$350,000 to \$365,000, Messrs. Khan and Stuart received increases from \$325,000 to \$350,000 and Mr. Newport received an increase from \$325,000 to \$340,000.

### ***Annual Cash Bonuses***

We provide our named executive officers with the opportunity to share in our success through annual bonuses awarded under our bonus program (the Management Bonus Program). The Management Bonus Program provides Emdeon's senior management and certain key employees the opportunity to earn compensation in addition to their base salaries up to a target bonus potential. The compensation committee has general authority for oversight and interpretation of the Management Bonus Program. The compensation committee, with the recommendations of our chief executive officer (other than with respect to himself), is responsible for (i) setting annual objective performance targets, (ii) reviewing actual performance and (iii) determining the amount of the compensation payable to each named executive officer.



## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

Under the Management Bonus Program, a participant's annual target bonus is calculated as a percentage of the participant's annual base salary as of the end of the fiscal year, with the target percentages generally being aligned with the participant's level and role at the Company. The funding of bonuses under the Management Bonus Program is dependent on

## **Table of Contents**

achievement of annual objective performance targets by the Company as a whole and of the operating division or divisions of which a participant is a part, if applicable. The amount of compensation a participant is eligible to be paid under the Management Bonus Program is determined primarily on the basis of objective Company performance measures determined by the compensation committee each year, such as Adjusted EBITDA and total revenue.

After reviewing the actual performance of the Company, the compensation committee, with recommendations of our chief executive officer (other than with respect to himself), then undertakes a subjective evaluation of each named executive officer's performance. The compensation committee does not rely on preset formulas, thresholds or multiples in the subjective portion of its evaluation but rather relies upon its and our chief executive officer's judgment after careful consideration of subjective factors such as an executive's performance during the year against established goals, leadership qualities, operational performance, business responsibilities, long-term potential to enhance stockholder value, current compensation arrangements and tenure with the Company.

### *2012*

The compensation committee determined that 60% of the 2012 objective performance measures were based on Adjusted EBITDA targets and 40% were based on revenue targets under the Management Bonus Program. For the year ended December 31, 2012, annual cash bonuses were linked to achievement of Adjusted EBITDA within a range of \$298 million to \$347 million and achievement of revenue from \$1.14 billion to \$1.26 billion. We believe the combination of these performance factors and the proportionate weighting assigned to each reflected our overall Company goals for 2012, which balanced the achievement of revenue growth and improving our operating efficiency. These measures were calculated in the same manner as reported in our financial results.

For 2012, our named executive officers' target annual cash bonuses as a percentage of base salary were 100% for Mr. Lazenby, and 75% for each of Messrs. Newport, Brechbühl, Khan and Stuart. The compensation committee, together with Mr. Lazenby, reviewed the Company and individual performance results at its first quarter 2013 meetings. The compensation committee determined the actual amount of bonus paid to Mr. Lazenby, and, together with Mr. Lazenby's input, determined the bonus payment for each other named executive officer. Based upon both achievement of Adjusted EBITDA of \$316 million and revenue of \$1.18 billion under the Management Bonus Program and each named executive officer's performance review, Messrs. Lazenby, Newport, Brechbühl, Khan and Stuart received bonuses of \$475,000, \$215,000, \$225,000, \$245,000 and \$250,000, respectively, for 2012.

### *2013*

In February 2013, the compensation committee determined the objective performance measures for 2013 under the Management Bonus Program. For the year ending December 31, 2013, 60% of the objective performance measures will be based on Adjusted EBITDA targets and 40% will be based on revenue targets. After the objective performance measures are calculated, adjustments to the annual cash bonuses payable for 2013 will be made based on the executive's achievement of individual objectives and contributions to us during the year. For 2013, our named executive officers' target annual cash bonuses as a percentage of base salary are 100% for Mr. Lazenby, 85% for each of Messrs. Brechbühl, Khan and Stuart and 80% for Mr. Newport.

### ***Equity-Based Awards***

In addition to base salary and cash bonus compensation, each of our named executive officers is provided equity-based award compensation. Parent adopted the Parent Equity Plan, which amended and restated the 2009 Plan, in connection with the 2011 Transactions. Pursuant to the Parent Equity Plan, 125,718 shares of Parent common stock have been reserved for issuance of equity awards to employees, directors and consultants of Parent and its affiliates. Parent has the authority to grant awards, to set the terms and conditions of such awards and to adopt, alter and repeal rules, guidelines and practices relating to the Parent Equity Plan and any awards granted thereunder. Because we are an indirect wholly owned subsidiary of Parent, awards under the Parent Equity Plan represent an indirect ownership interest in Emdeon.

In July 2012, Parent granted stock option awards to purchase shares of Parent common stock under the Parent Equity Plan. Pursuant to the individual award agreements entered into by certain of our named executive officers, the option awards are divided into four tranches as follows:

(1) Tier 1 Time-Vesting Options, which have an exercise price per share equal to \$1,000 (the grant date fair market value as determined by Parent) and vest in equal 20% annual installments on the first through the fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date;



---

**Table of Contents**

(2) Tier 2 Time-Vesting Options, which have an exercise price of \$2,500, and vest in equal 20% annual installments on the first through the fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date;

(3) 2x Exit-Vesting Options, which have an exercise price per share equal to \$1,000, and vest, subject to the optionee'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 from time to time, and shall have received cash proceeds in respect of all such Parent shares at a weighted average price per Parent share that is (i) equal to at least 2.0 times Blackstone's cumulative invested capital (measured on a per Parent share basis) in Parent (the 2x MOIC Hurdle) or (ii) sufficient to result in an annual internal rate of return on Blackstone's cumulative invested capital in Parent of at least 20% (the 20% IRR Hurdle); and

(4) 2.5x Exit-Vesting Options, which have an exercise price per share equal to \$1,000, and vest, subject to the optionee'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 from time to time, and shall have received cash proceeds in respect of all such Parent shares at a weighted average price per Parent share that is (i) equal to at least 2.5 times Blackstone's cumulative invested capital (measured on a per Parent share basis) in Parent (the 2.5x MOIC Hurdle) or (ii) sufficient to result in an annual internal rate of return on Blackstone's cumulative invested capital in Parent of at least 25% (the 25% IRR Hurdle).

The equity awards granted to our named executive officers are as follows: Mr. Lazenby was granted options to purchase an aggregate of 20,000 shares of Parent common stock; Mr. Newport was granted options to purchase an aggregate of 6,235 shares of Parent common stock; Mr. Brechbühl was granted options to purchase an aggregate of 7,180 shares of Parent common stock; Mr. Khan was granted options to purchase an aggregate of 6,235 shares of Parent common stock; and Mr. Stuart was granted options to purchase an aggregate of 6,235 shares of Parent common stock.

***Perquisites and Other Benefits***

Our named executive officers are eligible to receive the same benefits we provide, and to participate in all plans we offer, to other full-time employees, including health and dental insurance, group term life insurance, short- and long-term disability insurance, other health and welfare benefits, our 401(k) Savings Plan (including Emdeon's matching contribution) and other voluntary benefits. Perquisites, however, are not a material component of our executive compensation programs.

In 2012, the only perquisite or other compensation benefits deemed to be other compensation to our named executive officers for purposes of the Summary Compensation Table below were matching contributions made by Emdeon on their behalf to our 401(k) Savings Plan. Our named executive officers participate in and make elective contributions under our 401(k) Savings Plan in the same manner as our other employees. See Summary Compensation Table below.

***Severance and Change in Control Protection***

Each of our named executive officers is party to an employment agreement with us. Pursuant to these employment agreements, we provide salary continuation and other benefits in the event of involuntary or, in certain cases, constructive termination of employment without cause. Each such employment agreement was negotiated with the respective named executive officer and specifies certain terms of compensation, including an annual rate of base salary and eligibility for an annual cash bonus. Pursuant to these employment agreements, each named executive officer is subject to restrictive covenants, including confidentiality, non-competition and non-solicitation obligations. The employment of each named executive officer under these employment agreements continues in effect until terminated by us or by the named executive officer. In September 2012, each of our named executive officers entered into an amended and restated employment agreement with us. The primary purposes of the amended employment agreements were to reflect the named executive officers' current roles and compensation levels and, for certain of our named executive officers, to update the change-in-control definition set forth therein to reflect our new organizational structure and status as a privately-owned company as a result of the 2011 Transactions.

## **Table of Contents**

Pursuant to the 2012 award agreements under the Parent Equity Plan, the awards granted to each named executive officer include acceleration of vesting features in connection with a change of control (as defined in the Stockholders Agreement). All outstanding unvested (i) Tier 1 and Tier 2 Time-Vesting Options will vest in full to the extent not previously forfeited; (ii) 2x Exit-Vesting Options will become fully vested if either the 2x MOIC Hurdle or the 20% IRR Hurdle is satisfied in connection with the change of control; and (iii) 2.5x Exit-Vesting Options will become fully vested if either the 2.5x MOIC Hurdle or 25% IRR Hurdle is satisfied in connection with the change of control.

The protections afforded by the employment and equity award agreements were, and continue to be, designed to provide financial security in the event of certain corporate transactions and/or qualifying termination of employment, as well as consideration for the executive's compliance with post-employment restrictive covenants. We believe that these protections have assisted, and continue to assist, in retaining our named executive officers and provide a basis for continuing the cohesive operation of our business. These payments and benefits are described in more detail in the section entitled Potential Payments Upon Termination or Change in Control.

### ***Risk Guidelines***

The structure of our compensation programs is designed to promote behavior that supports value creation for our stockholders. We believe that the attention of our named executive officers and other key employees should be focused upon key strategic, operational and financial measures. To this end, a considerable portion of the compensation packages of our named executive officers and other key employees are driven by our long-term success. By focusing upon our sustained profitability and growth, we believe our compensation programs discourage our named executive officers and other employees from engaging in unnecessary and excessive risk taking.

### ***Accounting and Tax Matters***

We account for stock-based payments in accordance with FASB Accounting Standards Codification Topic 718, Compensation – Stock Compensation ( FASB ASC Topic 718 ). We operate our compensation programs with the intention of complying with compensation rules under Sections 409A and 162(m) of the Internal Revenue Code of 1986, as amended (the Code ). Section 162(m) generally denies a federal income tax deduction for certain compensation in excess of \$1 million per year paid to certain executive officers of a publicly-traded equity company. Certain types of compensation are excluded from the deduction limit.

Because we became a privately-owned company following the 2011 Transactions, we are no longer subject to the limitations imposed by Section 162(m). The compensation committee, however, intends to continue to take actions that are deemed to be in the best interest of the Company and its stockholders and to maximize the effectiveness of the Company's executive compensation plans. Accordingly, we presently consider the tax, accounting and disclosure consequences to be influential but not determinant factors in the design of our named executive officer compensation packages.

### ***Compensation Committee Interlocks and Insider Participation***

During 2012, none of our executive officers served as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our board of directors or the compensation committee. During 2012, our compensation committee consisted of Messrs. Dal Bello, Simpkins and Thorpe.

### **Compensation Committee Report**

The compensation committee has reviewed the foregoing Compensation Discussion and Analysis and discussed it with management and, based on such review and discussion, recommended to the board of directors that the Compensation Discussion and Analysis be included in this Annual Report.

Submitted by the compensation committee of the board of directors,

Michael Dal Bello

Neil P. Simpkins

Allen R. Thorpe



**Table of Contents****Summary Compensation Table**

The following table summarizes the compensation earned by each of our named executive officers for the years ended December 31, 2012, 2011 and 2010. In addition, there are certain contractual arrangements that exist between us and the named executive officers, including a tax receivable agreement, that are not compensatory and are described in Part III, Item 13, Certain Relationships and Related Transactions, and Director Independence.

For purposes of the following tables and other disclosures regarding executive compensation below, references to 2011 refer to the combination of the Predecessor period of January 1, 2011 through November 1, 2011 and the Successor period of November 2, 2011 through December 31, 2011.

| Name and Principal Position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) <sup>(1)</sup> | Non-Equity<br>Incentive                     |  | Total<br>(\$) |
|---|------|----------------|---------------|-------------------------|---|---|--|---------------|
|   |      |                |               |                         |   | Plan<br>Compensation<br>(\$) <sup>(2)</sup> | All Other<br>Compensation<br>(\$) <sup>(3)</sup> |               |
| George I. Lazenby, IV<br>Chief Executive Officer  | 2012 | 500,000        |               |                         | 9,419,125                               | 475,000                                     | 5,000  | 10,399,125    |
|   | 2011 | 500,000        |               | 231,300                 | 504,000                                 | 287,000                                     | 11,954,844                                       | 13,477,144    |
|   | 2010 | 500,000        |               | 429,260                 | 962,208                                 | 91,679                                      | 4,615  | 1,987,762     |
| Bob A. Newport, Jr.<br>Chief Financial Officer  | 2012 | 325,000        |               |                         | 2,943,420                               | 215,000                                     | 6,250  | 3,489,670     |
|   | 2011 | 323,462        |               | 185,040                 | 403,200                                 | 150,000                                     | 4,493,984  | 5,555,686     |
|   | 2010 | 310,961        |               | 206,375                 | 407,088                                 | 48,131                                      | 4,900  | 977,455       |
| T. Ulrich Brechbühl <sup>(4)</sup><br>Executive Vice President<br>Revenue Cycle Solutions | 2012 | 350,000        |               |                         | 3,392,797                               | 225,000                                     | 6,250  | 3,974,047     |
|   | 2011 |                |               |                         |   |   |  |               |
|   | 2010 |                |               |                         |   |   |  |               |
| Sajid Khan <sup>(4)</sup><br>Executive Vice President<br>Ambulatory Services              | 2012 | 325,000        |               |                         | 2,943,420                               | 245,000                                     |  | 3,513,420     |
|   | 2011 |                |               |                         |   |   |  |               |
|   | 2010 |                |               |                         |   |   |  |               |
| Gary D. Stuart<br>Executive Vice President<br>Payer Services                              | 2012 | 325,000        |               |                         | 2,943,420                               | 250,000                                     | 6,250  | 3,524,670     |
|   | 2011 | 321,154        |               | 154,200                 | 336,000                                 | 150,000                                     | 4,829,083  | 5,790,437     |
|   | 2010 | 300,000        |               | 123,825                 | 296,064                                 | 45,839                                      | 4,900  | 770,628       |

(1) The amounts reported in this column represent the aggregate grant date fair value of the stock options computed in accordance with FASB ASC Topic 718. Additional information regarding the awards is set forth in the tables and notes in the sections entitled Grants of Plan-Based Awards During 2012 and Outstanding Equity Awards at December 31, 2012. Please see Note 15 to the consolidated financial statements for the year ended December 31, 2012 included elsewhere in this Annual Report for more information on how amounts in this column are calculated.

(2) The amounts reported in this column were paid under our annual cash bonus program.

(3) For 2012, each named executive officer's additional compensation consists of matching contributions to our 401(k) Savings Plan.

(4) Messrs. Brechbühl and Khan were not named executive officers for the years ended December 31, 2011 and 2010. Therefore, only compensation for the year ended December 31, 2012 is included in the chart.

**Table of Contents****Grants of Plan-Based Awards During 2012**

The following table summarizes (i) awards granted under our Management Bonus Program and (ii) awards of options to purchase shares of Parent common stock.

**GRANTS OF PLAN-BASED AWARDS DURING 2012**

| Name   | Grant Date | Estimated Future Payouts<br>Under Non-Equity<br>Incentive Plan Awards <sup>(1)</sup> |                |                                | Estimated Future<br>Payouts Under Equity<br>Incentive Plan Awards |                         |                | All<br>Other<br>Stock<br>Awards:                    | All Other<br>Option<br>Awards: | Exercise<br>or Base<br>Price of<br>Option<br>Awards<br>(\$/Sh) | Grant Date<br>Fair Value<br>of<br>Stock and<br>Option<br>Awards<br>(\$) <sup>(4)</sup> |
|--|------------|--|----------------|--------------------------------|---|-------------------------|----------------|---|--------------------------------|--|--|
|  |            | Threshold<br>(\$) <sup>(2)</sup>   | Target<br>(\$) | Maximum<br>(\$) <sup>(3)</sup> | Threshold<br>(#)  | Target<br>(#)           | Maximum<br>(#) | Number of<br>Shares<br>of<br>Stock or<br>Securities | Number of<br>Options           |  |  |
| George I. Lazenby, IV<br>Chief Executive Officer                           | 2/28/2012  | 125,000  | 500,000        | 1,000,000                      |   |                         |                |   |                                |  |  |
|  | 7/17/2012  |  |                |                                |   | 3,750 <sup>(5)</sup>    |                |   | 1,000.00                       | 1,706,700  |  |
|  | 7/17/2012  |  |                |                                |   | 3,750 <sup>(6)</sup>    |                |   | 1,000.00                       | 1,545,825  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 5,000 <sup>(7)</sup>                                | 2,500.00                       | 1,907,500  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 7,500 <sup>(8)</sup>                                | 1,000.00                       | 4,259,100  |  |
| Bob A. Newport, Jr.<br>Chief Financial Officer                             | 2/28/2012  | 60,938   | 243,750        | 487,500                        |   |                         |                |   |                                |  |  |
|  | 7/17/2012  |  |                |                                |   | 1,183.75 <sup>(5)</sup> |                |   | 1,000.00                       | 538,748  |  |
|  | 7/17/2012  |  |                |                                |   | 1,183.75 <sup>(6)</sup> |                |   | 1,000.00                       | 487,965  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 1,500 <sup>(7)</sup>                                | 2,500.00                       | 572,250  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 2,367.5 <sup>(8)</sup>                              | 1,000.00                       | 1,344,456  |  |
| T. Ulrich Brechbühl<br>Executive Vice President<br>Revenue Cycle Solutions | 2/28/2012  | 65,625   | 262,500        | 525,000                        |   |                         |                |   |                                |  |  |
|  | 7/17/2012  |  |                |                                |   | 1,370 <sup>(5)</sup>    |                |   | 1,000.00                       | 623,514  |  |
|  | 7/17/2012  |  |                |                                |   | 1,370 <sup>(6)</sup>    |                |   | 1,000.00                       | 564,741  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 1,700 <sup>(7)</sup>                                | 2,500.00                       | 648,550  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 2,740 <sup>(8)</sup>                                | 1,000.00                       | 1,555,991  |  |
| Sajid Khan<br>Executive Vice President<br>Ambulatory Services              | 2/28/2012  | 60,938   | 243,750        | 487,500                        |   |                         |                |   |                                |  |  |
|  | 7/17/2012  |  |                |                                |   | 1,183.75 <sup>(5)</sup> |                |   | 1,000.00                       | 538,748  |  |
|  | 7/17/2012  |  |                |                                |   | 1,183.75 <sup>(6)</sup> |                |   | 1,000.00                       | 487,965  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 1,500 <sup>(7)</sup>                                | 2,500.00                       | 572,250  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 2,367.5 <sup>(8)</sup>                              | 1,000.00                       | 1,344,456  |  |
| Gary D. Stuart<br>Executive Vice President<br>Payer Services               | 2/28/2012  | 60,938   | 243,750        | 487,500                        |   |                         |                |   |                                |  |  |
|  | 7/17/2012  |  |                |                                |   | 1,183.75 <sup>(5)</sup> |                |   | 1,000.00                       | 538,748  |  |
|  | 7/17/2012  |  |                |                                |   | 1,183.75 <sup>(6)</sup> |                |   | 1,000.00                       | 487,965  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 1,500 <sup>(7)</sup>                                | 2,500.00                       | 572,250  |  |
|  | 7/17/2012  |  |                |                                |   |                         |                | 2,367.5 <sup>(8)</sup>                              | 1,000.00                       | 1,344,456  |  |

- (1) The amounts reported in these columns reflect amounts payable pursuant to our Management Bonus Program for 2012 at various points within the range of Company performance goals, assuming the satisfaction of individual performance criteria. For a description of the material terms of these awards and actual payouts made, see Compensation Discussion and Analysis Annual Cash Bonuses.
- (2) The threshold represents the amount payable upon achievement at the starting point of the targeted ranges of Adjusted EBITDA and revenue, as calculated under the Management Bonus Program for 2012.
- (3) The maximum represents the amount payable upon achievement at the top of the targeted ranges of Adjusted EBITDA and revenue, as calculated under the Management Bonus Program for 2012.
- (4) The amounts reported in this column represent the aggregate grant date fair value of the award computed in accordance with FASB ASC Topic 718. Please see Note 15 to the consolidated financial statements for the year ended December 31, 2012 included elsewhere in this Annual Report for more information on how these amounts were calculated.
- (5) Represents the 2x Exit-Vesting Options, which vest, subject to the optionee'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 from time to time, and shall have received cash proceeds in respect of all such



## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

- Parent shares at a weighted average price per Parent share that is (i) equal to at least the 2x MOIC Hurdle or (ii) sufficient to meet the 20% IRR Hurdle.
- (6) Represents the 2.5x Exit-Vesting Options, which vest, subject to the optionee'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 from time to time, and shall have received cash proceeds in respect of all such Parent shares at a weighted average price per Parent share that is (i) equal to at least the 2.5x MOIC Hurdle or (ii) sufficient to meet the 25% IRR Hurdle.
  - (7) Represents the Tier 2 Time-Vesting Options which vest in equal 20% annual installments on the first through the fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date.
  - (8) Represents the Tier 1 Time-Vesting Options which vest in equal 20% annual installments on the first through the fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date.

**Table of Contents****Outstanding Equity Awards at December 31, 2012**

The following table provides information regarding outstanding equity awards held by each of our named executive officers as of December 31, 2012.

**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2012**

| Name   | Option Grant Date | Number of Securities Underlying Unexercised Options |                      | Option Awards                                       |   | Option Exercise Price (\$) | Option Expiration Date   |
|--|-------------------|---|----------------------|---|---|----------------------------|--------------------------|
|  |                   | Exercisable (#)                                     | Unexercisable (#)    | Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options |                            |                          |
| George I. Lazenby, IV<br>Chief Executive Officer                           | 11/2/2011         | 1,302 <sup>(1)</sup>                                |                      |   |   | 250.00                     | 8/11/2019 <sup>(2)</sup> |
|  | 11/2/2011         | 48 <sup>(1)</sup>                                   |                      |   |   | 250.00                     | 3/11/2020 <sup>(2)</sup> |
|  | 7/17/2012         |   |                      |   | 3,750 <sup>(3)</sup>  | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         |   |                      |   | 3,750 <sup>(4)</sup>  | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         | 1,000 <sup>(5)</sup>                                | 4,000 <sup>(5)</sup> |   |   | 2,500.00                   | 7/17/2022                |
|  | 7/17/2012         | 1,500 <sup>(6)</sup>                                | 6,000 <sup>(6)</sup> |   |   | 1,000.00                   | 7/17/2022                |
| Bob A. Newport, Jr.<br>Chief Financial Officer                             | 11/2/2011         | 460 <sup>(1)</sup>                                  |                      |   |   | 250.00                     | 8/11/2019 <sup>(2)</sup> |
|  | 7/17/2012         |   |                      |   | 1,183.75 <sup>(3)</sup>   | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         |   |                      |   | 1,183.75 <sup>(4)</sup>   | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         | 300 <sup>(5)</sup>                                  | 1,200 <sup>(5)</sup> |   |   | 2,500.00                   | 7/17/2022                |
|  | 7/17/2012         | 473.50 <sup>(6)</sup>                               | 1,894 <sup>(6)</sup> |   |   | 1,000.00                   | 7/17/2022                |
| T. Ulrich Brechbühl<br>Executive Vice President<br>Revenue Cycle Solutions | 11/2/2011         | 240 <sup>(1)</sup>                                  |                      |   |   | 250.00                     | 10/1/2020 <sup>(2)</sup> |
|  | 7/17/2012         |   |                      |   | 1,370 <sup>(3)</sup>  | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         |   |                      |   | 1,370 <sup>(4)</sup>  | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         | 340 <sup>(5)</sup>                                  | 1,360 <sup>(5)</sup> |   |   | 2,500.00                   | 7/17/2022                |
|  | 7/17/2012         | 548 <sup>(6)</sup>                                  | 2,192 <sup>(6)</sup> |   |   | 1,000.00                   | 7/17/2022                |
| Sajid Khan<br>Executive Vice President<br>Ambulatory Services              | 11/2/2011         | 565 <sup>(1)</sup>                                  |                      |   |   | 250.00                     | 8/11/2019 <sup>(2)</sup> |
|  | 7/17/2012         |   |                      |   | 1,183.75 <sup>(3)</sup>   | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         |   |                      |   | 1,183.75 <sup>(4)</sup>   | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         | 300 <sup>(5)</sup>                                  | 1,200 <sup>(5)</sup> |   |   | 2,500.00                   | 7/17/2022                |
|  | 7/17/2012         | 473.50 <sup>(6)</sup>                               | 1,894 <sup>(6)</sup> |   |   | 1,000.00                   | 7/17/2022                |
| Gary D. Stuart<br>Executive Vice President<br>Payer Services               | 11/2/2011         | 550 <sup>(1)</sup>                                  |                      |   |   | 250.00                     | 8/11/2019 <sup>(2)</sup> |
|  | 7/17/2012         |   |                      |   | 1,183.75 <sup>(3)</sup>   | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         |   |                      |   | 1,183.75 <sup>(4)</sup>   | 1,000.00                   | 7/17/2022                |
|  | 7/17/2012         | 300 <sup>(5)</sup>                                  | 1,200 <sup>(5)</sup> |   |   | 2,500.00                   | 7/17/2022                |
|  | 7/17/2012         | 473.50 <sup>(6)</sup>                               | 1,894 <sup>(6)</sup> |   |   | 1,000.00                   | 7/17/2022                |

(1) In connection with the 2011 Transactions, the Company's outstanding stock options became fully vested immediately prior to the closing of the Merger and, for certain members of senior management, were exchanged for the Rollover Options. The exercise price and number of shares subject to the Rollover Options were determined in accordance with applicable tax rules governing the conversion of options in the context of a change in control transaction. These amounts reflect the shares of Parent common stock underlying vested Rollover Options.

(2)

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

The Rollover Options have a 10-year term from the grant date of the original option which was granted under the 2009 Plan and rolled into the Parent Equity Plan. All or a portion of a Rollover Option may expire prior to its stated expiration date in the event of the optionee's termination of employment.

- (3) Represents the 2x Exit-Vesting Options, which vest, subject to the optionee'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 from time to time, and shall have received cash proceeds in respect of all such Parent shares at a weighted average price per Parent share that is (i) equal to at least the 2x MOIC Hurdle or (ii) sufficient to meet the 20% IRR Hurdle.
- (4) Represents the 2.5x Exit-Vesting Options, which vest, subject to the optionee'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 from time to time, and shall have received cash proceeds in respect of all such Parent shares at a weighted average price per Parent share that is (i) equal to at least the 2.5x MOIC Hurdle or (ii) sufficient to meet the 25% IRR Hurdle.
- (5) Represents the Tier 2 Time-Vesting Options which vest in equal 20% annual installments on the first through the fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date.
- (6) Represents the Tier 1 Time-Vesting Options which vest in equal 20% annual installments on the first through the fifth anniversary of the Merger, subject to the optionee's continued employment through each vesting date.

## **Table of Contents**

### **Equity Awards Exercised During the Year Ended December 31, 2012**

During the year ended December 31, 2012, there were no stock options exercised by any of the named executive officers.

### **Potential Payments Upon Termination or Change in Control**

The following summaries and table describe and quantify the potential payments and benefits that we would provide to our named executive officers in connection with their termination of employment and/or change in control. In determining amounts payable, we have assumed in all cases that the terms of the executive's current employment and equity award agreements with us were in effect on, and the termination of employment and/or change in control occurred on December 31, 2012.

#### ***Severance Benefits-Employment Agreements***

The employment of each named executive officer may be terminated by us or by the executive at any time, with or without cause. Pursuant to each named executive officer's employment agreement in effect at the end of 2012, the applicable named executive officer is entitled to receive severance benefits upon termination by us without cause, upon his resignation for good reason, or upon his termination due to his death or permanent disability. Upon an eligible termination, each named executive officer is entitled to continued payment of his base salary for one year (two years in the case of Mr. Lazenby) and reimbursement for COBRA health insurance premiums (up to the amount we pay for active employees) for one year (18 months in the case of Mr. Lazenby). The executive's entitlement to these severance payments and benefits is generally conditioned on continued compliance with his obligations not to compete with us and not to solicit our employees or customers (for 18 months following termination of employment and two years in the case of Mr. Lazenby) and his release of all claims against us.

A termination for cause generally includes any of the following: failure to comply with our employment policies; misconduct or dishonesty in connection with his duties; or conviction of a felony or crime involving moral turpitude. Resignation for good reason generally includes: a reduction in the executive's base salary; a reduction in the executive's title, authority or duties or a relocation by more than fifty miles of the executive's principal place of employment. For Messrs. Brechbühl, Khan and Stuart, severance benefits are payable only upon resignation for good reason within 24 months following a change in control. A transaction prior to a future initial public offering that results in a change in control generally includes a sale or merger of Emdeon or its parent companies in which our stockholders do not hold a majority of the surviving or successor corporation; an event that causes Parent to cease to own indirectly 100% of Emdeon's operating subsidiary; or a sale of all or substantially all of the assets of Emdeon, its parent companies or its operating subsidiary. A transaction following a future initial public offering that results in a change in control generally includes the acquisition by any person (other than a member of the Investor Group) of 35% or more of voting stock of our public company successor (the Public Company); a change in the control of at least a majority of the outstanding voting power of the Public Company as a result of any tender or exchange offer, merger or other business combination transaction; a majority change in the composition of the Public Company's board of directors members as a result of a proxy contest or material transaction; or stockholder approval of a liquidation, sale, or other disposition of substantially all the Public Company's assets. Under the terms of their employment agreements, Messrs. Lazenby and Newport are entitled to severance benefits in the event of resignation for good reason without regard to whether a change in control transaction has or will occur.

No named executive officer has any right to receive a gross up for any excise tax imposed by Section 4999 of the Code, or any other federal, state and local income tax.

**Table of Contents*****Accelerated Vesting of Equity-Based Awards***

As discussed above, (i) all outstanding unvested Tier 1 and Tier 2 Time-Vesting Options will vest upon a change in control and (ii) the 2x Exit-Vesting Options and 2.5x Exit-Vesting Options will vest upon the occurrence of certain exit transactions described above which may coincide with a change in control. The provisions governing the 2012 equity awards held by certain of our named executive officers pursuant to the Parent Equity Plan are described in further detail in the section entitled Executive Compensation Severance and Change in Control Protection.

***Calculations of Benefits to Which Executives Would be Entitled***

Assuming termination of employment occurred on December 31, 2012, the dollar value of the payments and other benefits to be provided to each named executive officer under his employment agreement are estimated to be as follows:

**Estimated Payments And Benefits Upon Termination**

| Name  |  | Termination by us Without            | Resignation for                 | Resignation for Good                    |
|---|--|--------------------------------------|---------------------------------|---|
|   |  | Cause or Upon Death<br>Or Disability | Good Reason                     | Reason Following a Change<br>in Control |
| George I. Lazenby, IV<br>Chief Executive Officer                              |  | Salary Continuation \$1,000,000      | Salary Continuation \$1,000,000 | Salary Continuation \$1,000,000         |
|   |  | Insurance Coverage \$26,349          | Insurance Coverage \$26,349     | Insurance Coverage \$26,349             |
| Bob A. Newport, Jr.<br>Chief Financial Officer                                |  | Salary Continuation \$325,000        | Salary Continuation \$325,000   | Salary Continuation \$325,000           |
|   |  | Insurance Coverage \$16,099          | Insurance Coverage \$16,099     | Insurance Coverage \$16,099             |
| T. Ulrich Brechbühl<br>Executive Vice President<br>Revenue<br>Cycle Solutions |  | Salary Continuation \$350,000        |                                 | Salary Continuation \$350,000           |
|   |  | Insurance Coverage \$18,559          |                                 | Insurance Coverage \$18,559             |
| Sajid Khan<br>Executive Vice President<br>Ambulatory<br>Services              |  | Salary Continuation \$325,000        |                                 | Salary Continuation \$325,000           |
|   |  | Insurance Coverage \$18,473          |                                 | Insurance Coverage \$18,473             |
| Gary D. Stuart<br>Executive Vice President<br>Payer<br>Services               |  | Salary Continuation \$325,000        |                                 | Salary Continuation \$325,000           |
|   |  | Insurance Coverage \$16,012          |                                 | Insurance Coverage \$16,012             |

**Table of Contents****DIRECTOR COMPENSATION**

This section describes the compensation we provided to our non-employee directors in 2012. Directors who are employed by us are not compensated by us for their services as directors. The table below shows amounts paid to our non-employee directors for the year ended December 31, 2012.

**DIRECTOR COMPENSATION FOR THE YEAR ENDED DECEMBER 31, 2012**

| Name <sup>(4)</sup>            | Fees<br>Earned<br>or<br>Paid in |                         |   |                                   | Total<br>(\$) |
|--------------------------------|---------------------------------|-------------------------|---|-----------------------------------|---------------|
|                                | Cash<br>(\$)                    | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) <sup>(1)</sup> | All Other<br>Compensation<br>(\$) |               |
| Pamela J. Pure <sup>(2)</sup>  | 100,000                         |                         | 56,217                                  |                                   | 156,217       |
| Howard L. Lance <sup>(3)</sup> | 25,000                          |                         | 283,940                                 |                                   | 308,940       |
| Philip M. Pead <sup>(3)</sup>  | 25,000                          |                         | 283,940                                 |                                   | 308,940       |

(1) The amounts reported in this column represent the aggregate grant date fair value of the award computed in accordance with FASB ASC Topic 718. Please see Note 15 to the consolidated financial statements for the year ended December 31, 2012 included elsewhere in this Annual Report for more information on how these amounts were calculated.

(2) Ms. Pure was elected to the board of directors in January 2012.

(3) Messrs. Lance and Pead were elected to the board of directors in November 2012.

(4) During 2012, our board of directors also included Robert Galvin, M.D., Allen R. Thorpe, Michael Dal Bello, Anjan Mukherjee and Neil P. Simpkins. Because these directors received no compensation for serving as directors, such directors are not included in this table.

In January 2012, pursuant to the Stockholders' Agreement, our board of directors elected Ms. Pure as an independent director to serve as a member of Parent's and our boards of directors upon her nomination by Blackstone, in consultation with Hellman & Friedman. Ms. Pure receives \$100,000 as an annual retainer and was granted options to purchase 100 shares of Parent common stock pursuant to Parent Equity Plan. The options vest in equal annual installments over a three-year period, subject to continued membership on Parent's and our boards of directors, and are subject to accelerated vesting in connection with a change of control (as defined in the Stockholders' Agreement).

In November 2012, pursuant to the Stockholders' Agreement, our board of directors elected Mr. Pead as an independent director to serve as a member of Parent's and our boards of directors upon his nomination by Blackstone, in consultation with Hellman & Friedman, and elected Mr. Lance as a member of Parent's and our boards of directors upon his nomination by Blackstone as a Blackstone nominee. Upon their election, the compensation of each of Messrs. Pead and Lance consisted of \$100,000 as an annual retainer and an option grant to purchase 500 shares of Parent common stock pursuant to Parent Equity Plan. The options vest in equal annual installments over a five-year period, subject to the recipient's continued membership on Parent's and our boards of directors, and are subject to accelerated vesting in connection with a change of control (as defined in the Stockholders' Agreement). In connection with his appointment as our chairman of the board on February 28, 2013, Mr. Lance's annual retainer was increased to \$250,000.

With the exception of Ms. Pure and Messrs. Pead and Lance, no other director currently receives compensation for his services as a director.

**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Parent owns 100% of the issued and outstanding shares of common stock of Holdings, which, in turn, owns 100% of the issued and outstanding shares of common stock of Emdeon. The issued and outstanding capital stock of Parent consists of 1,211,286.75 shares of Parent common stock. The holders of Parent common stock are generally entitled to one vote per share on all matters submitted for action by the stockholders, to receive ratably such dividends and distributions as may be declared or paid from time to time by the board of directors and to pro rata distribution of any available and remaining assets upon a liquidation or dissolution of Holdings.

The following table sets forth certain information as of March 1, 2013 with respect to shares of Parent common stock beneficially owned by (i) each of our directors, (ii) each of our named executive officers, (iii) all of our directors and executive officers as a group and (iv) each person known to us to be the beneficial owner of more than 5% of the outstanding Parent common stock as of such date.

Except as indicated in the footnotes to the table, each of the stockholders listed below has sole voting and investment power with respect to shares of Parent common stock owned by such stockholder. Unless otherwise noted, the address of each beneficial owner of is c/o Emdeon Inc., 3055 Lebanon Pike, Suite 1000, Nashville, Tennessee 37214, (615) 932-3000.

| Name and Address of Beneficial Owner                                | Shares of Parent Common Stock Beneficially Owned | Percentage of Parent Common Stock Beneficially Owned |
|---|--|--|
| <b>Principal Stockholders:</b>                                      |  |  |
| Blackstone <sup>(1)</sup>   | 966,041.75                                       | 79.75%   |
| Hellman & Friedman <sup>(2)</sup>                                   | 245,000.00                                       | 20.23%   |
| <b>Directors and Named Executive Officers:</b>                      |  |  |
| George I. Lazenby, IV   | 3,850.00 <sup>(3)</sup>                          | *  |
| Bob A. Newport, Jr.   | 1,233.50 <sup>(3)</sup>                          | *  |
| T. Ulrich Brechbühl   | 1,128.00 <sup>(3)</sup>                          | *  |
| Sajid Khan  | 1,338.50 <sup>(3)</sup>                          | *  |
| Gary D. Stuart  | 1,323.50 <sup>(3)</sup>                          | *  |
| Michael Dal Bello <sup>(4)</sup>                                    |  |  |
| Howard L. Lance   |  |  |
| Philip M. Pead  |  |  |
| Pamela J. Pure  | 33.33 <sup>(3)</sup>                             | *  |
| Neil P. Simpkins <sup>(5)</sup>                                     |  |  |
| Allen Thorpe <sup>(6)</sup>   |  |  |
| <b>All directors and executive officers as a group (13 persons)</b> | <b>10,243.83<sup>(3)</sup></b>                   | <b>*</b>   |

\* Less than 1%.

- (1) Shares of Parent common stock shown as beneficially owned by Blackstone are held by the following entities: Blackstone Capital Partners VI L.P. (545,297.50 shares); Blackstone Family Investment Partnership VI L.P. (88.00 shares); Blackstone Family Investment Partnership VI- ESC L.P. (4,614.50 shares); Blackstone Eagle Principal Transaction Partners L.P. (406,041.75 shares); and GSO COF Facility LLC (10,000.00 shares). The address of each of the entities listed in this note is c/o The Blackstone Group, L.P., 345 Park Avenue, New York, New York 10154.
- (2) Shares of Parent common stock shown as beneficially owned by Hellman & Friedman are held by the following entities: H&F Harrington AIV II, L.P. (83,320.24 shares); HFCP VI Domestic AIV, L.P. (159,987.45 shares); Hellman & Friedman Investors VI, L.P. (896.06 shares); Hellman & Friedman Capital Executives VI, L.P. (715.40 shares); Hellman & Friedman Capital Associates VI, L.P. (80.85 shares). The address of each of the entities listed in this note is c/o Hellman & Friedman LLC, One Maritime Plaza, 12th Floor, San Francisco, California 94111.
- (3) Includes shares of Parent common stock issuable upon the exercise of options that are or will become vested within 60 days after March 1, 2013.
- (4) Mr. Dal Bello is an employee of Blackstone, but has no investment or voting control over the shares beneficially owned by Blackstone. Mr. Dal Bello disclaims beneficial ownership of any shares of Parent common stock owned directly or indirectly by Blackstone, except to the extent of his indirect pecuniary interest therein, if any. Mr. Dal Bello's address is c/o The Blackstone Group, L.P., 345 Park Avenue, New York, New York 10154.
- (5) Mr. Simpkins is a Senior Managing Director in Blackstone's Private Equity Group. Mr. Simpkins disclaims beneficial ownership of any shares of Parent common stock owned directly or indirectly by Blackstone, except to the extent of his indirect pecuniary interest therein, if any. Mr. Simpkins's address is c/o The Blackstone Group, L.P., 345 Park Avenue, New York, New York 10154.
- (6) Mr. Thorpe is a Managing Director of Hellman & Friedman, but is not a member of its investment committee. Mr. Thorpe disclaims beneficial ownership of any shares of Parent common stock owned directly or indirectly by Hellman & Friedman, except to the extent of his pecuniary interests therein, if any. The address for Mr. Thorpe is c/o Hellman & Friedman LLC, 390 Park Avenue, 21st Floor, New York, New York 10022.





**Table of Contents**

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

**Related Party Transactions Policies and Procedures**

The Company's board of directors has adopted a Related Party Transaction Policy ( RPT Policy ), which sets forth the Company's policy with respect to the review, approval, ratification and disclosure of all related party transactions by the audit committee. In accordance with the RPT Policy, the audit committee has overall responsibility for the implementation and compliance with the RPT Policy.

For the purposes of the RPT Policy, an interested transaction is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company was, is or will be a participant and the amount involved exceeds, will or may be expected to exceed \$100,000 and in which any related party had, has or will have a direct or indirect material interest. A related party is defined in the RPT Policy as (i) any person who is or was an executive officer, director or nominee for election as a director; (ii) greater than 5% beneficial owner of the Company; (iii) an immediate family member of any of the foregoing; or (iv) any entity in which any of the foregoing persons is employed or is a general partner, managing member or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

The Company's RPT Policy requires that the audit committee review all interested transactions and either ratify, approve or disapprove our entry into the transaction. In determining whether to approve or ratify an interested transaction, the audit committee is required to consider all relevant information and take into account necessary factors, including whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under same or similar circumstances and the benefits to the Company of the transaction. In addition, the following interested transactions are deemed pre-approved by the audit committee: (i) any employment relationship or transaction involving an executive officer and any related compensation resulting solely from that employment relationship; (ii) any director compensation; (iii) any transactions with another company at which a related party's only relationship is as a director or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed \$100,000; or (iv) any transaction where the related party's interest arises solely from the ownership of the Company securities and all holders of such securities received the same benefit on a pro rata basis.

The Company's RPT Policy also provides that the audit committee shall review previously approved or ratified interested transactions that are ongoing to determine whether the transaction remains appropriate or should otherwise be modified or terminated. Additionally, the Company also makes periodic inquiries of directors, executive officers and the Investor Group with respect to any potential related person transaction to which they may be a party or of which they may be aware.

---

## **Table of Contents**

### **Tax Receivable Agreement Obligations to Related Parties**

#### ***General***

In connection with our IPO, we entered into two tax receivable agreements (the *Investors Tax Receivable Agreements*) with an entity referred to herein as the *Tax Receivable Entity*, which is currently controlled by affiliates of the Investor Group. In connection with the 2011 Transactions, we entered into amended and restated *Investors Tax Receivable Agreements*. We also entered into a third tax receivable agreement (the *Management Tax Receivable Agreement*) and, together with the *Investors Tax Receivable Agreements*, the *Tax Receivable Agreements*) with certain members of our current and former senior management and directors (*Management Members*) in connection with our IPO. Except as otherwise discussed below under *Certain Provisions of Tax Receivable Agreements*, the *Tax Receivable Agreements* generally provide for the payment by us to the *Tax Receivable Entity* or the *Management Members* of 85% of the amount of cash savings, if any, in United States federal, state and local income tax or franchise tax that we actually realize as a result of certain tax benefits (i) in existence at the time of our IPO, (ii) created in connection with our IPO, (iii) resulting from the 2011 Transactions, (iv) resulting from certain payments made under the *Tax Receivable Agreements* and (v) related to imputed interest deemed to be paid by us in connection with the *Tax Receivable Agreements*. In addition, our December 31, 2011 corporate restructuring, pursuant to which MediFax-EDI Holding Company became a direct subsidiary of Emdeon, should result in additional tax benefits that are covered by the *Tax Receivable Agreements*, and thereby have the effect of increasing the amounts payable by us under such agreements.

#### ***Certain Provisions of Tax Receivable Agreements***

The *Tax Receivable Entity* and the *Management Members* will not reimburse us for any payments made with respect to tax benefits that are subsequently disallowed, except that excess payments made to the *Tax Receivable Entity* or the *Management Members* will be netted against payments otherwise to be made, if any, after our determination of such excess. As a result, in such circumstances, we could make payments under the *Tax Receivable Agreements* that are greater than our actual cash tax savings and may not be able to recoup those payments.

The amount and/or timing of aggregate payments due pursuant to the *Tax Receivable Agreements* may vary based on a number of factors, including the amount and timing of the taxable income we generate in the future and the tax rate then applicable, the use of loss carryovers and the portion of payments under the *Tax Receivable Agreements* constituting imputed interest or amortizable basis.

The *Tax Receivable Agreements* provide that, upon certain changes of control, our or our successor's obligations under the *Tax Receivable Agreements* would be based on certain assumptions, including that we or our successor would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other tax benefits covered by the *Tax Receivable Agreements*. The 2011 Transactions did not result in a covered change of control under the *Investor Tax Receivable Agreements*, because those agreements were amended to provide that the 2011 Transactions would not be treated as a covered change of control. The 2011 Transactions, however, did result in a covered change of control under the *Management Tax Receivable Agreement*. As a result of the covered change of control caused by the 2011 Transactions under the *Management Tax Receivable Agreement* or as a result of a subsequent covered change of control under the *Investor Tax Receivable Agreements*, we could be required to make payments under the *Tax Receivable Agreements* that significantly exceed our actual cash tax savings from the tax benefits giving rise to such payments.

We have the right to terminate the *Tax Receivable Agreements* at any time by making a lump sum payment in satisfaction of our remaining obligations thereunder. The calculation of such payment assumes, among other things, that we will have sufficient taxable income to fully utilize tax benefits covered by the applicable *Tax Receivable Agreement*. Payments to terminate the *Tax Receivable Agreements* early could be substantial and could exceed our actual cash tax savings, including our future cash tax savings, to which the *Tax Receivable Agreements* relate.

Because we are a holding company with no operations of our own, our ability to make payments under the *Tax Receivable Agreements* is substantially dependent on the ability of our subsidiaries to make distributions to us. To the extent that we are unable to make payments under the *Tax Receivable Agreements* for any reason, such payments will be deferred and will accrue interest until paid.

## **Table of Contents**

All payments due under the Tax Receivable Agreements are subordinate and junior in right of payment to any principal, interest or other amounts payable in respect of our indebtedness. However, we are not restricted from making such payments, including in a lump sum pursuant to our termination rights in connection with a subsequent change of control or an initial public offering.

The Management Members may terminate the Management Tax Receivable Agreement upon certain changes in tax law. In the event of such a termination, the Management Members would have the right, subject to the delivery of an appropriate tax opinion and certain other conditions, to require us to pay a lump sum amount in lieu of the periodic payments otherwise provided under the agreement. That lump sum amount would be calculated by increasing the portion of the tax savings retained by the Company to 30% (from 15%) and by calculating a present value for the total amount that would otherwise be payable under the Management Tax Receivable Agreement, assuming, among other things, that we will have sufficient taxable income to fully utilize the tax benefits covered by the Management Tax Receivable Agreement. This lump sum amount may be paid in cash or by a subordinated note.

The Company made cumulative payments to the Tax Receivable Entity and the Management Members of \$0.3 million for the tax year ended December 31, 2012.

## **Transaction and Advisory Fee Agreement**

In connection with the 2011 Transactions, we entered into a transaction and advisory fee agreement with Blackstone Management Partners L.L.C., an affiliate of Blackstone ( **BMP** ), and Hellman & Friedman, L.P., an affiliate of Hellman & Friedman ( **HFLP**, and, together with BMP, the **Managers** ), for a term of 12 years. Pursuant to the agreement, we paid the Managers, at the closing of the Merger, a \$30.0 million transaction fee in consideration for the Managers undertaking financial and structural analysis, due diligence and other assistance related to the Merger and reimbursed the Managers for out-of-pocket expenses incurred by the Managers in connection with the Merger and the provision of services under the agreement. In addition, in consideration for certain advisory services, we are obligated to pay the Managers at the beginning of each fiscal year an aggregate advisory fee of \$6.0 million or an agreed upon amount not to exceed 2% of consolidated EBITDA (as defined in the Senior Credit Agreement) for such fiscal year. Pursuant to the agreement, the Managers also are entitled to receive transaction fees equal to 1% of the aggregate transaction value upon the consummation of any acquisition, divestiture, disposition, merger, consolidation, restructuring or recapitalization, issuance of private or public debt or equity securities (including an initial public offering of equity securities), financing or similar transaction involving us.

Pursuant to the agreement, in connection with or in anticipation of our change in control, sale of all or substantially all of our assets or an initial public offering of our equity or equity of our parent entity or its successors, the Managers have the option to receive, in consideration of such Manager's role in facilitating such transaction and in settlement of the termination of the services, a single lump sum cash payment equal to the then-present value of all the then-current and future annual advisory fees payable under the agreement, assuming a remaining 12-year payment period from the date of election. To the extent that we do not pay the lump sum fee when due, the obligation will accrue interest at an annual rate of 10%, compounded quarterly.

During the period from January 1, 2012 to December 31, 2012, we paid \$6.6 million (approximately \$6.0 million to BMP and \$0.6 million to HFLP) in advisory fees and approximately \$200,000 as reimbursement to BMP for their out of pocket expenses.

The transaction and advisory fee agreement also contains certain indemnification provisions, including those relating to the indemnification of Managers and their respective affiliates and representatives from liabilities relating to the services contemplated thereunder.

## **2019 Notes and Term Loans Held by Related Party**

In connection with the 2011 Transactions, certain investment funds managed by GSO Capital Partners LP (the **GSO-managed funds** ) purchased a portion of the 2019 Notes and the Senior Credit Facilities. GSO Advisor Holdings LLC ( **GSO Advisor** ) is the general partner of GSO Capital Partners LP. Blackstone, indirectly through its subsidiaries, holds all of the issued and outstanding equity interests of GSO Advisor. As of December 31, 2012, the GSO-managed funds held \$100 million in principal amount of the 2019 Notes and \$43.7 million in principal amount of the Senior Credit Facilities.

## **Table of Contents**

### **Stockholders Agreement**

In connection with the 2011 Transactions, Parent entered into the Stockholders Agreement with Emdeon, the Investor Group and other equity holders of Parent, including certain members of Emdeon's senior management. The Stockholders Agreement governs certain matters relating to ownership of Parent and its subsidiaries, including with respect to the election of directors of Emdeon and its parent companies, restrictions on the issuance and transfer of shares (including preemptive rights, tag-along rights, drag-along rights and right of first refusal), other corporate governance provisions, registration rights and indemnification provisions. The transfer restrictions apply until the earlier of (i) the fifth anniversary (and, with respect to Blackstone, the second anniversary) of the closing date of the 2011 Transactions and (ii) the initial public offering of equity securities of Parent, Holdings or Emdeon meeting certain specified criteria (the Initial Holding Period). At any time after the Initial Holding Period, certain investors party to the Stockholders Agreement have a right of first refusal over the transfer of any shares of capital stock of Parent. In addition, at any time after the fifth anniversary of the 2011 Transactions, so long as Hellman & Friedman holds 25% or more of its initial ownership interest in Parent, the Stockholders Agreement provides Hellman & Friedman the right to require Parent to consummate, at Hellman & Friedman's election, either (i) a registered public offering meeting certain requirements specified in the Stockholders Agreement or (ii) a sale transaction that results in a change in ownership of more than 50% of the outstanding equity securities of Parent or the disposition of substantially all the assets of Parent and its subsidiaries, taken as a whole, to an unaffiliated third party. The Stockholders Agreement also provides Blackstone the right, at any time, to require any of Parent, Holdings or Emdeon to consummate an initial public offering meeting certain requirements specified in the Stockholders Agreement.

Pursuant to the Stockholders Agreement, Parent's board of directors must be comprised of at least five members, three of whom are designated by Blackstone, one of whom is designated by Hellman & Friedman, and one of whom is Emdeon's chief executive officer. Blackstone may increase the size of Parent's board of directors to seven directors to accommodate the election of two independent directors to be selected by Blackstone in consultation with Hellman & Friedman. In the event that Hellman & Friedman ceases to hold 25% or more of its initial ownership interest in Parent, it will no longer be entitled to designate a director for election to Parent's board of directors or to a consultation right with respect to the election of directors. Blackstone has the right (in consultation with Hellman & Friedman) to appoint and remove all independent directors and fill vacancies created by reason of death, removal or resignation of all such independent directors. Pursuant to the Stockholders Agreement, Parent is obligated to cause each of its subsidiaries (including us) to take all necessary action to cause its board of directors to be constituted in accordance with the foregoing requirements.

### **Transactions with Investor Group Portfolio Companies**

The Investor Group and its affiliates have ownership interests in a broad range of companies. We have entered into commercial transactions in the ordinary course of our business with some of these companies, including the sale of goods and services and the purchase of goods and services.

### **Potential Debt Repurchases**

As market conditions warrant, we and our major equity holders, including the Investor Group, may from time to time, depending upon market conditions, seek to repurchase our debt securities or loans in privately negotiated or open market transactions, by tender offer or otherwise.

### **Amended and Restated Data License Agreement with WebMD**

In 2008, we entered into an Amended and Restated Data License Agreement (the Data License Agreement) with our former parent company, HLTH Corporation, and its affiliates, currently known as WebMD Health Corp. (WebMD), which remains in effect. Pursuant to the Data License Agreement with WebMD, we are required (on an exclusive basis) to provide WebMD (subject to applicable law and our contractual relationships with our customers) with certain de-identified data that we collect in providing our solutions for use in applications offered by WebMD primarily related to clinical purposes or created for clinical, non-financial purposes. We also granted WebMD a non-exclusive license to use such de-identified data in connection with any other uses (other than financial or administrative applications or solutions that are targeted to providers, payers or their suppliers or that relate to claims submission). Under the agreement, WebMD is required to pay us a

**Table of Contents**

royalty based on the revenues it earns from use of the de-identified data we provide. The agreement has an initial term of ten years from February 8, 2008, and automatically renews for an additional five year term unless terminated by either party prior to extension.

In October 2009, Emdeon acquired certain additional rights to specified uses of its data from WebMD in order to broaden Emdeon's ability to pursue business intelligence and data analytics solutions for payers and providers. Emdeon previously licensed exclusive rights to this data to WebMD pursuant to the Data License Agreement. In April 2010, Emdeon exercised an option to acquire certain additional rights to specified uses of its data from WebMD.

During 2012, the Company received cumulative royalty payments of \$1.5 million from WebMD related to the Data License Agreement.

**Indemnification of Directors and Officers; Directors and Officers Insurance**

The Company has entered into an indemnification agreement with each of its executive officers and directors. Certain directors and officers of the Company and its subsidiaries also are entitled under the Merger Agreement to continued indemnification and insurance coverage.

**Director Independence**

Because we have not listed any securities on a national securities exchange or an inter-dealer quotation system, we are not required to have a board comprised of a majority of independent directors under SEC rules or any listing standards. As such, our board of directors has not made any determination as to whether our directors satisfy any independence requirements applicable to board members under the rules of the SEC or any national securities exchange, inter-dealer quotation system or any other independence definition.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit Fees and Non-Audit Fees**

The following table presents the aggregate fees billed by Ernst & Young LLP for the two most recent years ended December 31, 2012 and 2011.

|                                   | 2012                | 2011                |
|-----------------------------------|---------------------|---------------------|
| Audit Fees <sup>(1)</sup>         | \$ 1,141,735        | \$ 1,784,648        |
| Audit-Related Fees <sup>(2)</sup> | 38,010              | 85,119              |
| Tax Fees <sup>(3)</sup>           | 86,245              | 331,023             |
| All Other Fees <sup>(4)</sup>     | 1,995               | 1,995               |
| <b>Total Fees</b>                 | <b>\$ 1,267,985</b> | <b>\$ 2,202,785</b> |

(1) Fees for audit services include fees relating to the audit of annual consolidated financial statements, the review of quarterly financial statements, audit services performed in connection with the 2011 Transactions and audit services performed in connection with the registration of our Senior Notes.

(2) Fees for audit-related services include fees relating to certain service auditor reports.

(3) Fees for tax services include fees for tax compliance, tax advice and tax planning related to, among other things, the 2011 Transactions and our corporate structure.

(4) All other fees consist of subscription fees for global accounting and auditing research tool.

**Pre-Approval Policies and Procedures**

Pursuant to our audit committee's charter, the audit committee reviews and pre-approves audit and non-audit services performed by Emdeon's independent registered public accounting firm, as well as the terms and fees charged for such services. Additionally, the audit committee reviews and discusses with the firm documentation supplied by the firm as to the nature and scope of any tax services to be approved, as well as the potential effects of the provision of such services on the firm's independence. The audit committee may delegate to one or more designated committee members the authority to grant pre-approvals of audit and permitted non-audit services, provided that any decisions to pre-approve

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

shall be presented to the full audit committee at its next scheduled meeting. For 2012, all of the audit and non-audit services provided by Emdeon's independent registered public accounting firm were pre-approved by the audit committee in accordance with the audit committee charter.

The audit committee has determined that the provision of non-audit services, including tax and other services, by Ernst & Young LLP is compatible with maintaining the independence of Ernst & Young LLP.

**Table of Contents**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) List of Documents Filed

1. Financial Statements

All financial statements are set forth under Item 8 Financial Statements and Supplementary Data of this Annual Report

2. Financial Statement Schedules

All financial statement schedules are set forth under Item 8 Financial Statements and Supplementary Data of this Annual Report

3. Exhibits

The list of exhibits filed as part of this Annual Report is submitted in the Exhibit Index and is incorporated herein by reference.

(b) Exhibits

The list of exhibits filed as part of this Annual Report is submitted in the Exhibit Index and is incorporated herein by reference.

(c) None.

**Table of Contents**

**Index to Consolidated Financial Statements**

|   | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | F-2  |
| <u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>   | F-3  |
| <u>Consolidated Statements of Operations for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010</u>                  | F-4  |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010</u> | F-5  |
| <u>Consolidated Statements of Equity for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010</u>                      | F-6  |
| <u>Consolidated Statements of Cash Flows for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010</u>                  | F-7  |
| <u>Notes to Consolidated Financial Statements</u>   | F-8  |
| <u>Schedule II</u>  | S-1  |

F-1



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Stockholder**

**Emdeon Inc.**

We have audited the accompanying consolidated balance sheets of Emdeon Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for the year ended December 31, 2012, for the period from November 2, 2011 to December 31, 2011, for the period from January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Emdeon Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for the year ended December 31, 2012, for the period from November 2, 2011 to December 31, 2011, for the period from January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Nashville, Tennessee

March 18, 2013

**Table of Contents****Emdeon Inc.****Consolidated Balance Sheets**

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

|   | December 31,<br>2012 | December 31,<br>2011 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$ 31,763            | \$ 37,925            |
| Accounts receivable, net of allowance for doubtful accounts of \$3,585 and \$1,201 at December 31, 2012 and December 31, 2011, respectively | 190,021              | 188,960              |
| Deferred income tax assets  | 4,184                | 5,614                |
| Prepaid expenses and other current assets   | 28,160               | 15,869               |
| <b>Total current assets</b>   | <b>254,128</b>       | <b>248,368</b>       |
| Property and equipment, net   | 272,088              | 277,768              |
| Goodwill  | 1,481,889            | 1,443,574            |
| Intangible assets, net  | 1,730,089            | 1,821,897            |
| Other assets, net   | 29,694               | 40,460               |
| <b>Total assets</b>   | <b>\$ 3,767,888</b>  | <b>\$ 3,832,067</b>  |
| <b>LIABILITIES AND EQUITY</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$ 6,223             | \$ 8,827             |
| Accrued expenses  | 102,069              | 132,096              |
| Deferred revenues   | 9,342                | 4,671                |
| Current portion of long-term debt   | 17,330               | 16,034               |
| <b>Total current liabilities</b>  | <b>134,964</b>       | <b>161,628</b>       |
| Long-term debt, excluding current portion   | 1,999,392            | 1,945,074            |
| Deferred income tax liabilities   | 467,912              | 501,796              |
| Tax receivable agreement obligations to related parties   | 125,003              | 117,477              |
| Other long-term liabilities   | 8,466                | 2,303                |
| Commitments and contingencies   |                      |                      |
| Equity:   |                      |                      |
| Common stock (par value, \$.01), 100 shares authorized, issued and outstanding at December 31, 2012 and December 31, 2011, respectively     |                      |                      |
| Additional paid-in capital  | 1,130,968            | 1,120,676            |
| Accumulated other comprehensive loss  | (3,789)              | (194)                |
| Accumulated Deficit   | (95,028)             | (16,693)             |
| <b>Total equity</b>   | <b>1,032,151</b>     | <b>1,103,789</b>     |
| <b>Total liabilities and equity</b>   | <b>\$ 3,767,888</b>  | <b>\$ 3,832,067</b>  |

See accompanying notes.

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

(amounts in thousands)

|   | Successor                                    |   | Predecessor                                 |  |
|---|--|---|---|--|
|   | Fiscal Year<br>Ended<br>December 31,<br>2012 | November 2<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 | Fiscal Year<br>Ended<br>December 31,<br>2010 |
| Revenue   | \$ 1,178,271                                 | \$ 190,384                                    | \$ 929,264                                  | \$ 1,002,152                                 |
| Costs and expenses:   |  |   |   |  |
| Cost of operations (exclusive of depreciation and amortization below) | 731,525                                      | 117,421                                       | 572,541                                     | 612,367                                      |
| Development and engineering   | 31,794                                       | 5,153   | 26,090                                      | 30,638                                       |
| Sales, marketing, general and administrative                          | 142,186                                      | 21,778  | 111,463                                     | 116,947                                      |
| Depreciation and amortization   | 187,225                                      | 29,094  | 128,761                                     | 124,721                                      |
| Accretion   | 8,666  | 2,459   |   |  |
| Transaction related costs   | 1,250  | 17,857  | 66,625                                      |  |
| Operating income (loss)   | 75,625                                       | (3,378)                                       | 23,784                                      | 117,479                                      |
| Interest expense, net   | 172,253                                      | 29,343  | 43,201                                      | 61,017                                       |
| Loss on extinguishment of debt  | 21,853                                       |   |   |  |
| Other   |  | (5,843)                                       | (8,036)                                     | (9,284)                                      |
| Income (loss) before income tax provision (benefit)                   | (118,481)                                    | (26,878)                                      | (11,381)                                    | 65,746                                       |
| Income tax provision (benefit)  | (40,146)                                     | (10,185)                                      | 8,201                                       | 32,579                                       |
| Net income (loss)   | (78,335)                                     | (16,693)                                      | (19,582)                                    | 33,167                                       |
| Net income attributable to noncontrolling interest                    |  |   | 5,109                                       | 13,621                                       |
| Net income (loss) attributable to Emdeon Inc.                         | \$ (78,335)                                  | \$ (16,693)                                   | \$ (24,691)                                 | \$ 19,546                                    |

See accompanying notes.

**Table of Contents****Emdeon Inc.****Consolidated Statements of Comprehensive Income (Loss)**

(amounts in thousands)

|   | Successor                                       |   | Predecessor                                 |  |
|---|---|---|---|--|
|   | Fiscal<br>Year<br>Ended<br>December 31,<br>2012 | November 2<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 | Fiscal Year<br>Ended<br>December 31,<br>2010 |
| Net income (loss)   | \$ (78,335)                                     | \$ (16,693)                                   | \$ (19,582)                                 | \$ 33,167                                    |
| Other comprehensive income (loss):                            |   |   |   |  |
| Changes in fair value of interest rate swap, net of taxes     | (3,662)   |   |   | 5,841  |
| Other comprehensive income amortization, net of taxes         |   |   | 2,762                                       | 5,062  |
| Foreign currency translation adjustment                       | 67  | (194)   | 101   | 91   |
| Other comprehensive income (loss)                             | (3,595)   | (194)   | 2,863                                       | 10,994                                       |
| Total comprehensive income (loss)                             | (81,930)  | (16,887)                                      | (16,719)                                    | 44,161                                       |
| Comprehensive income attributable to non-controlling interest |   |   | 5,719                                       | 15,979                                       |
| Comprehensive income (loss) attributable to Emdeon Inc.       | \$ (81,930)                                     | \$ (16,887)                                   | \$ (22,438)                                 | \$ 28,182                                    |

See accompanying notes.

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

(amounts in thousands, except share amounts)

|  | Class A<br>Common Stock |        | Class B<br>Common Stock |        | Additional<br>Paid-in<br>Capital | Contingent<br>Consideration | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Non-<br>Controlling<br>Interest | Total<br>Equity |
|--|-------------------------|--------|-------------------------|--------|----------------------------------|-----------------------------|-----------------------------------|---|---------------------------------|-----------------|
|  | Shares                  | Amount | Shares                  | Amount |                                  |                             |                                   |   |                                 |                 |
| <b>Predecessor Balances:</b>   |                         |        |                         |        |                                  |                             |                                   |   |                                 |                 |
| <b>Balance at January 1, 2010</b>  | 90,423,941              | \$ 1   | 24,752,955              | \$     | \$ 730,941                       | \$                          | \$ 33,704                         | (\$ 11,198)   | \$ 226,421                      | \$ 979,869      |
| Equity compensation expense  |                         |        |                         |        | 14,093                           |                             |                                   |   | 3,628                           | 17,721          |
| Issuance of shares in connection with equity compensation plans, net of taxes  | 242,158                 |        |                         |        | 983                              |                             |                                   | (2)   | (537)                           | 444             |
| Exchange of units of EBS Master to Class A common stock, net of taxes          | 36,829                  |        | (36,829)                |        | 425                              |                             |                                   | (4)   | (339)                           | 82              |
| Cancellation of Class B common stock, net of taxes                             |                         |        | (26,984)                |        | 127                              |                             |                                   | (2)   | (197)                           | (72)            |
| Issuance of Class A common stock in connection with acquisitions, net of taxes | 361,558                 |        |                         |        | 4,369                            | 1,955                       |                                   | (7)   | 720                             | 7,037           |
| Other  |                         |        |                         |        | 50                               |                             |                                   |   |                                 | 50              |
| Contribution of data sublicense intangible to EBS Master                       |                         |        |                         |        | (856)                            |                             |                                   |   | 1,358                           | 502             |
| Capital contribution to EBS Master   |                         |        |                         |        | (10,777)                         |                             |                                   |   | 17,092                          | 6,315           |
| Transactions with noncontrolling interest                                      |                         |        |                         |        | (467)                            |                             |                                   | 8   | (362)                           | (821)           |
| Comprehensive income:  |                         |        |                         |        |                                  |                             |                                   |   |                                 |                 |
| Net income   |                         |        |                         |        |                                  |                             | 19,546                            |   | 13,621                          | 33,167          |
| Changes in the fair value of interest rate swap, net of taxes                  |                         |        |                         |        |                                  |                             |                                   | 4,591   | 1,250                           | 5,841           |
| Foreign currency translation adjustment  |                         |        |                         |        |                                  |                             |                                   | 66  | 25                              | 91              |
| Other comprehensive income amortization, net of taxes                          |                         |        |                         |        |                                  |                             |                                   | 3,979   | 1,083                           | 5,062           |
| <b>Balance at December 31, 2010</b>  | 91,064,486              | 1      | 24,689,142              |        | 738,888                          | 1,955                       | 53,250                            | (2,569)   | 263,763                         | 1,055,288       |
| Equity compensation expense  |                         |        |                         |        | 43,525                           |                             |                                   |   | 11,407                          | 54,932          |
| Issuance of shares in connection with equity compensation plans, net of taxes  | 208,399                 |        |                         |        | 2,303                            |                             |                                   |   | (1,085)                         | 1,218           |
| Tax receivable agreements with related parties, net of taxes                   |                         |        |                         |        | (59)                             |                             |                                   |   |                                 | (59)            |
| Adjustment to contingent consideration for stock acquisitions, net of taxes    |                         |        |                         |        | (845)                            | (1,955)                     |                                   |   |                                 | (2,800)         |
| Comprehensive income:  |                         |        |                         |        |                                  |                             |                                   |   |                                 |                 |
| Net income (loss)  |                         |        |                         |        |                                  |                             | (24,691)                          |   | 5,109                           | (19,582)        |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|   |              |     |              |              |          |             |            |              |
|---|--------------|-----|--------------|--------------|----------|-------------|------------|--------------|
| Foreign currency translation adjustment                                       |              |     |              |              |          | 80          | 21         | 101          |
| Other comprehensive income amortization, net of taxes                         |              |     |              |              |          | 2,173       | 589        | 2,762        |
| Elimination of Predecessor equity in connection with merger (see Note 1)      | (91,272,885) | (1) | (24,689,142) | (783,812)    | (28,559) | 316         | (279,804)  | (1,091,860)  |
| <b>Predecessor Balances</b>   |              |     |              |              |          |             |            |              |
| <b>Subsequent to Merger</b>   | \$           |     | \$           | \$           | \$       | \$          | \$         | \$           |
| <b>Successor capital contribution, net</b>                                    |              |     |              |              |          |             |            |              |
|   | 100          | \$  | \$           | \$ 1,120,676 | \$       | \$          | \$         | \$ 1,120,676 |
| <b>Comprehensive income:</b>  |              |     |              |              |          |             |            |              |
| <b>Net loss</b>   |              |     |              |              |          |             |            |              |
|   |              |     |              |              |          | (16,693)    |            | (16,693)     |
| Foreign currency translation adjustment                                       |              |     |              |              |          | (194)       |            | (194)        |
| <b>Successor Balances:</b>  |              |     |              |              |          |             |            |              |
| <b>Balance at December 31, 2011</b>   | 100          |     |              | 1,120,676    |          | (16,693)    | (194)      | 1,103,789    |
| Reclassification of liability awards to equity awards                         |              |     |              | 3,675        |          |             |            | 3,675        |
| Equity compensation expense   |              |     |              | 6,842        |          |             |            | 6,842        |
| Issuance of shares in connection with equity compensation plans, net of taxes |              |     |              | 317          |          |             |            | 317          |
| Repurchase of Parent common stock   |              |     |              | (436)        |          |             |            | (436)        |
| Other   |              |     |              | (106)        |          |             |            | (106)        |
| Net loss  |              |     |              |              |          | (78,335)    |            | (78,335)     |
| Foreign currency translation adjustment                                       |              |     |              |              |          | 67          |            | 67           |
| Change in fair value of interest rate swap, net of taxes                      |              |     |              |              |          | (3,662)     |            | (3,662)      |
| <b>Balance at December 31, 2012</b>   | 100          | \$  | \$           | \$ 1,130,968 | \$       | \$ (95,028) | \$ (3,789) | \$ 1,032,151 |

See accompanying notes.

**Table of Contents****Emdeon Inc.****Consolidated Statements of Cash Flows**

(amounts in thousands)

|  | Successor                           |                                      | Predecessor                        |                                     |
|--|-------------------------------------|--------------------------------------|------------------------------------|-------------------------------------|
|  | Fiscal Year Ended December 31, 2012 | November 2 through December 31, 2011 | January 1 through November 1, 2011 | Fiscal Year Ended December 31, 2010 |
| <b>Operating activities</b>  |                                     |                                      |                                    |                                     |
| Net Income (loss)  | \$ (78,335)                         | \$ (16,693)                          | \$ (19,582)                        | \$ 33,167                           |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                     |                                      |                                    |                                     |
| Depreciation and amortization  | 187,225                             | 29,094                               | 128,761                            | 124,721                             |
| Equity compensation expense  | 6,842                               |                                      | 54,932                             | 17,721                              |
| Deferred income tax expense (benefit)  | (38,447)                            | (6,397)                              | (15,045)                           | 12,236                              |
| Accretion expense  | 8,666                               | 2,459                                |                                    |                                     |
| Loss on extinguishment of debt   | 18,293                              |                                      |                                    |                                     |
| Amortization of debt discount and issuance costs   | 10,185                              | 1,642                                | 11,673                             | 12,911                              |
| Amortization of discontinued cash flow hedge from other comprehensive loss                         |                                     |                                      |                                    | 5,800                               |
| Amortization of interest rate swap   |                                     |                                      | 3,167                              |                                     |
| Change in fair value of interest rate swap (not subject to hedge accounting)                       |                                     | (2,755)                              | (7,983)                            | (3,908)                             |
| Change in contingent consideration   |                                     | (5,843)                              | (8,036)                            | (9,284)                             |
| Other  | 2,685                               | 489                                  | 1,119                              | 419                                 |
| Changes in operating assets and liabilities:   |                                     |                                      |                                    |                                     |
| Accounts receivable  | 1,601                               | (13,447)                             | 660                                | (2,429)                             |
| Prepaid expenses and other   | (12,096)                            | 3,126                                | 6,638                              | (12,552)                            |
| Accounts payable   | (2,149)                             | (2,912)                              | 8,505                              | (7,499)                             |
| Accrued expenses, deferred revenue, and other liabilities  | (25,218)                            | (17,544)                             | 47,613                             | 451                                 |
| Tax receivable agreement obligations to related parties  | (334)                               |                                      | (3,519)                            | 95                                  |
| Net cash provided by (used in) operating activities  | 78,918                              | (28,781)                             | 208,903                            | 171,849                             |
| <b>Investing activities</b>  |                                     |                                      |                                    |                                     |
| Purchases of property and equipment  | (62,054)                            | (8,279)                              | (51,902)                           | (79,988)                            |
| Payments for acquisitions, net of cash acquired  | (59,011)                            |                                      | (39,422)                           | (251,464)                           |
| Purchase of Emdeon Inc, net of cash acquired   |                                     | (1,943,218)                          |                                    |                                     |
| Other  |                                     |                                      |                                    | (3,000)                             |
| Net cash used in investing activities  | (121,065)                           | (1,951,497)                          | (91,324)                           | (334,452)                           |
| <b>Financing activities</b>  |                                     |                                      |                                    |                                     |
| Proceeds from issuance of stock  |                                     | 863,245                              |                                    | 306                                 |
| Proceeds from Term Loan Facility   |                                     | 1,185,114                            |                                    |                                     |
| Proceeds from Revolving Facility   |                                     | 25,000                               |                                    |                                     |
| Proceeds from Senior Notes   |                                     | 729,375                              |                                    |                                     |
| Payments on Revolving Facility   | (15,000)                            | (10,000)                             |                                    |                                     |
| Payment of debt issue costs  | (2,060)                             | (35,901)                             |                                    |                                     |
| Proceeds from incremental term loan  | 70,351                              |                                      |                                    | 97,982                              |
| Debt principal and data sublicense obligation payments   | (16,613)                            | (942,138)                            | (10,128)                           | (11,423)                            |
| Repayment of assumed debt obligations  |                                     |                                      |                                    | (35,254)                            |
| Other  | (693)                               | (2,868)                              | (263)                              | (1,819)                             |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |            |           |            |           |
|--|------------|-----------|------------|-----------|
| Net cash provided by (used in) financing activities      | 35,985     | 1,811,827 | (10,391)   | 49,792    |
| Net increase (decrease) in cash and cash equivalents     | (6,162)    | (168,451) | 107,188    | (112,811) |
| Cash and cash equivalents at beginning of period         | 37,925     | 206,376   | 99,188     | 211,999   |
| Cash and cash equivalents at end of period               | \$ 31,763  | \$ 37,925 | \$ 206,376 | \$ 99,188 |
| <b>Supplemental disclosures of cash flow information</b> |            |           |            |           |
| Cash paid for interest                                   | \$ 171,879 | \$ 16,969 | \$ 35,119  | \$ 42,955 |
| Cash paid during the period for income taxes             | \$ 7,545   | \$ 4,392  | \$ 5,554   | \$ 26,126 |
| Acquisition of certain data rights:                      |            |           |            |           |
| Intangible assets  | \$         | \$        | \$         | \$ 6,341  |
| Current portion of long-term debt                        | \$         | \$        | \$         | \$ 608    |
| Long-term debt   | \$         | \$        | \$         | \$ 5,733  |

See accompanying notes.

F-7



**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit 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 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 (the Merger Agreement) 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). 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;

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

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 our prior interest rate swap agreement with the proceeds from the 2011 Transactions.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

The following transaction-related costs were incurred as a result of the 2011 Transactions and are included in the accompanying consolidated statements of operations for the respective periods indicated.

|   | Successor                                       |   | Predecessor                                 |
|---|---|---|---|
|   | Fiscal<br>Year<br>Ended<br>December 31,<br>2012 | November 2<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 |
| Accelerated vesting of equity compensation                            | \$  | \$  | \$ 35,285                                   |
| Professional and other advisory fees                                  |   |   | 27,573                                      |
| Expenses incurred in connection with the refinancing of existing debt | 1,250   | 16,857  |   |
| Transaction-related bonuses and severance                             |   | 1,000   | 3,767                                       |
| <b>Total</b>  | <b>\$ 1,250</b>                                 | <b>\$ 17,857</b>                              | <b>\$ 66,625</b>                            |

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. Summary of Significant Accounting Policies*****Principles of Consolidation***

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all subsidiaries and entities that are controlled by the Company. The results of operations for companies acquired are included in the consolidated financial statements from the effective date of acquisition. All material intercompany accounts and transactions have been eliminated in the consolidated financial statements.

***Reclassifications***

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

***Noncontrolling Interest***

For periods prior to the Merger, noncontrolling interest represents the noncontrolling stockholders' proportionate share of equity and net income of EBS Master, a former majority owned subsidiary of the Company that became wholly-owned as a result of the 2011 Transactions.

***Accounting Estimates***

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

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

expenses and disclosure of contingent assets and liabilities. The Company is subject to uncertainties such as the impact of future events, economic, environmental and political factors and changes in the Company's business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the preparation of the Company's financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating

F-9

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in the reported results of operations; and if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements. Estimates and assumptions by management affect: the allowance for doubtful accounts; the fair value assigned to assets acquired and liabilities assumed in business combinations; tax receivable agreement obligations; the fair value of interest rate swap obligations; contingent consideration; the carrying value of long-lived assets (including goodwill and intangible assets); the amortization period of long-lived assets (excluding goodwill); the carrying value, capitalization and amortization of software development costs; the provision and benefit for income taxes and related deferred tax accounts; certain accrued expenses; revenue recognition; contingencies; and the value attributed to equity awards.

***Business Combinations***

The Company recognizes the consideration transferred (i.e. purchase price) in a business combination, as well as the acquired business identifiable assets, liabilities and noncontrolling interests at their acquisition date fair value. The excess of the consideration transferred over the fair value of the identifiable assets, liabilities and noncontrolling interest, if any, is recorded as goodwill. Any excess of the fair value of the identifiable assets acquired and liabilities assumed over the consideration transferred, if any, is generally recognized within earnings as of the acquisition date.

The fair value of the consideration transferred, assets, liabilities and noncontrolling interests is estimated based on one or a combination of income, costs or market approaches as determined based on the nature of the asset or liability and the level of inputs available to the Company (i.e. quoted prices in an active market, other observable inputs or unobservable inputs). To the extent that the Company's initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are reported for those items which are incomplete. The Company retroactively adjusts such provisional amounts as of the acquisition date once new information is received about facts and circumstances that existed as of the acquisition date.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents.

***Allowance for Doubtful Accounts***

The allowance for doubtful accounts reflects the Company's best estimate of losses inherent in the Company's receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.

***Software Development Costs***

Software development costs that are incurred in the preliminary project stage are expensed as incurred. Once certain criteria have been met, direct costs incurred in developing or obtaining computer software are capitalized. Training and data conversion costs are expensed as incurred. Capitalized software costs are included in property and equipment in the accompanying consolidated balance sheets and are amortized over a three-year period.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)*****Property and Equipment***

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The useful lives for newly acquired assets are generally as follows:

|  |                                      |
|--|--------------------------------------|
| Computer equipment                       | 3-5 years                            |
| Production equipment                     | 5-7 years                            |
| Office equipment, furniture and fixtures | 3-7 years                            |
| Software                                 | 3 years                              |
| Technology                               | 6-9 years                            |
| Leasehold improvements                   | Shorter of useful life or lease term |

Expenditures for maintenance, repair and renewals of minor items are expensed as incurred. Expenditures for maintenance repair and renewals that extend the useful life of an asset are capitalized.

***Goodwill and Intangible Assets***

Goodwill and intangible assets resulting from the Company's acquisitions are accounted for using the acquisition method of accounting. Intangible assets with definite lives are amortized on a straight-line basis over the estimated useful lives of the related assets generally as follows:

|                           |             |
|---------------------------|-------------|
| Customer relationships    | 10-20 years |
| Tradenames                | 3-20 years  |
| Data sublicense agreement | 6 years     |
| Non-compete agreements    | 3-5 years   |
| Backlog                   | 1-2 years   |

The Company assesses its goodwill for impairment annually (as of October 1 of each year) or whenever significant indicators of impairment are present. The Company first assesses whether it can reach a more likely than not conclusion that goodwill is not impaired via qualitative analysis alone. To the extent, such a conclusion cannot be reached based on a qualitative assessment alone, the Company, using the assistance of a valuation specialist as appropriate, compares the fair value of each reporting unit to its associated carrying value. If the fair value of the reporting unit is less than the carrying value, then a hypothetical acquisition method allocation is performed to determine the amount of the goodwill impairment to recognize. The Company recognized no impairment in conjunction with its most recent goodwill impairment analysis.

***Long-Lived Assets***

Long-lived assets used in operations are reviewed for impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell.

***Other Assets***

Other assets consist primarily of debt issuance costs, a cost method investment and other miscellaneous items. Debt issuance costs are generally amortized using the effective interest method over the term of the debt. The amortization is included in interest expense in the accompanying

consolidated statements of operations.

***Derivatives***

Derivative financial instruments are used to manage the Company's interest rate exposure. The Company does not enter into financial instruments for speculative purposes. Derivative financial instruments are accounted for and measured at fair value and recorded on the balance sheet. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods.

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

during which the hedged transaction affects earnings (for example, in interest expense when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in interest expense in current earnings during the period of change.

***Equity Compensation***

Compensation expense related to the Company's equity awards is generally recognized on a straight-line basis over the requisite service period. For awards subject to vesting based on market or performance conditions, however, compensation expense is recognized under the accelerated method. The fair value of the equity awards subject only to service conditions is determined by use of a Black-Scholes model. The fair value of the equity awards subject to market or performance conditions is determined by use of a Monte Carlo simulation.

***Revenue Recognition***

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

Revenue for transaction-related services, payment services, patient statements and consulting services are recognized as the services are provided. Postage fees related to the Company's payment services and patient statement volumes are recorded on a gross basis. Revenue for our government eligibility and enrollment and accounts receivable management services generally are recognized at the time that our provider customer receives notice from the payer of a pending payment.

Cash receipts or billings in advance of revenue recognition are recorded as deferred revenues in the accompanying consolidated balance sheets.

The Company excludes sales and use tax from revenue in the accompanying consolidated statements of operations.

***Income Taxes***

The Company records deferred income taxes for the tax effect of differences between book and tax bases of its assets and liabilities, as well as differences relating to the timing of recognition of income and expenses.

Deferred income taxes reflect the available net operating losses and the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including the Company's past earnings history, expected future earnings, the character and jurisdiction of such earnings, reversing taxable temporary differences, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of its deferred tax assets, carryback and carryforward periods and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

The Company recognizes tax benefits for uncertain tax positions at the time the Company concludes that the tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. The benefit, if any, is measured as the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement. Tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period that they meet the more likely than not standard, upon resolution through negotiation or litigation with the taxing authority or on expiration of the statute of limitations.



---

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

***Tax Receivable Agreement Obligations***

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 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. In connection with the 2011 Transactions, the Company's former majority owner 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 hereinafter sometimes referred to collectively as the TRA Members).

Prior to the Merger, the Company's balance sheet reflected these obligations at the amount that was both probable and reasonably estimable. In connection with the Merger, the tax receivable agreement obligations were adjusted to their fair value. The fair value of the obligations at the time of the Merger is being accreted to the amount of the gross expected obligations using the interest method. Changes in the amount of these obligations resulting from changes to either the timing or amount of cash flows are recognized in the period of change and measured using the discount rate inherent in the initial fair value of the obligations. The accretion of these obligations is classified as a separate caption in the accompanying consolidated statements of operations.

***Recent Accounting Pronouncements***

On January 1, 2012, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-04, an update to FASB Accounting Standards Codification Fair Value Measurement Topic, which clarified the intent of the FASB regarding existing requirements, changed certain principles for measuring fair value and expanded the disclosure requirements related to fair value measurements. Specifically, this update expanded the restriction on the use of block discounts to all fair value measurements and provided 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 required 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 within Note 11 to these 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.

In January 2013, the FASB issued ASU 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. This 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.

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit 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**

***Successor Acquisitions***

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.

In connection with the 2011 Transactions, 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.

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.

***Predecessor Acquisitions***

In January 2010, the Company acquired all of the voting interest of FutureVision Investment Group, L.L.C. and substantially all of the assets of two related companies, FVTech, Inc. and FVTech Arizona, Inc. (collectively, FVTech ). FVTech is a provider of outsourced services specializing in electronic data conversion and information management solutions.

In March 2010, the Company acquired Healthcare Technology Management Services, Inc. ( HTMS ), a management consulting company focused primarily on the healthcare payer market.

In June 2010, the Company acquired all of the equity interests of Chapin Revenue Cycle Management, LLC ( Chapin ), a technology-enabled provider of accounts receivable denial and recovery services.

In October 2010, the Company acquired all of the equity interests of Chamberlin Edmonds Holdings Inc. and Chamberlin Edmonds & Associates, Inc. (collectively, CEA ), a technology-enabled provider of government program eligibility and enrollment services.

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.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

The following table summarizes certain information related to these acquisitions.

|  | Successor |              |           |           | Predecessor |            |           |
|--|-----------|--------------|-----------|-----------|-------------|------------|-----------|
|  | TC3       | Merger       | FVTech    | HTMS      | Chapin      | CEA        | EquiClaim |
| <b>Total Consideration Fair Value at Acquisition Date:</b> |           |              |           |           |             |            |           |
| Cash paid at closing                                       | \$ 61,351 | \$ 1,943,218 | \$ 20,005 | \$ 7,841  | \$ 16,096   | \$ 209,520 | \$ 39,758 |
| Parent common stock fair value                             |           | 245,000      |           |           |             |            |           |
| Parent options fair value                                  |           | 4,125        |           |           |             |            |           |
| Class A common stock fair value                            |           |              |           | 2,263     | 2,554       |            |           |
| Estimated contingent consideration                         |           |              | 13,850    | 8,230     | 3,885       | 2,364      |           |
| Other  | 383       |              | 303       | 409       | 398         | 85         | (350)     |
|  | \$ 61,734 | \$ 2,192,343 | \$ 34,158 | \$ 18,743 | \$ 22,933   | \$ 211,969 | \$ 39,408 |
| <b>Fair Value of Assets and Liabilities Acquired:</b>      |           |              |           |           |             |            |           |
| Cash   | \$ 2,340  | \$ 206,376   | \$ 372    | \$ 1,029  | \$ 62       | \$ 533     | \$        |
| Accounts receivable  | 2,662     | 175,514      | 1,736     | 3,270     | 1,322       | 14,412     | 1,983     |
| Deferred income tax assets                                 | 348       | 1,739        |           |           |             |            |           |
| Prepaid expenses and other current assets                  | 155       | 20,226       | 35        |           | 46          | 4,583      | 74        |
| Property and equipment                                     | 10,414    | 278,122      | 18,423    |           | 3,065       | 26,371     | 2,331     |
| Other assets   |           | 4,205        | 29        |           | 12          | 91         |           |
| Identifiable intangible assets:                            |           |              |           |           |             |            |           |
| Tradenname   | 530       | 156,000      | 160       | 190       | 50          | 3,570      | 160       |
| Noncompetition agreements                                  | 1,300     | 11,500       |           | 3,150     | 3,350       | 1,560      | 100       |
| Customer relationships                                     | 18,810    | 1,623,000    | 560       |           | 4,640       | 77,710     | 14,030    |
| Data sublicense  |           | 31,000       |           |           |             |            |           |
| Backlog  |           | 19,000       |           | 1,630     |             | 16,820     | 3,680     |
| Goodwill   | 38,634    | 1,443,574    | 14,038    | 12,414    | 10,895      | 167,153    | 18,079    |
| Accounts payable   |           | (12,346)     | (338)     | (1,786)   | (146)       | (4,198)    | (98)      |
| Accrued expenses   | (4,783)   | (149,480)    | (550)     | (1,050)   | (363)       | (13,674)   | (931)     |
| Deferred revenues  |           | (4,340)      |           |           |             |            |           |
| Current maturities of long-term debt                       |           | (11,861)     |           | (104)     |             | (2,850)    |           |
| Long-term debt   |           | (960,936)    |           |           |             | (32,300)   |           |
| Deferred income tax liabilities                            | (8,592)   | (515,725)    |           |           |             | (46,980)   |           |
| Tax receivable obligations to related parties              |           | (115,237)    |           |           |             |            |           |
| Other long-term liabilities                                | (84)      | (7,988)      | (307)     |           |             | (832)      |           |
| Net assets acquired  | \$ 61,734 | \$ 2,192,343 | \$ 34,158 | \$ 18,743 | \$ 22,933   | \$ 211,969 | \$ 39,408 |

**Acquisition costs in sales, marketing, general and administrative expense:**

|  |    |     |    |  |    |     |    |     |    |     |        |     |    |
|--|----|-----|----|--|----|-----|----|-----|----|-----|--------|-----|----|
| For the year ended December 31, 2012                         | \$ | 513 | \$ |  | \$ |     | \$ |     | \$ |     | \$     |     |    |
| For the period from November 2, 2011 to<br>December 31, 2011 | \$ |     | \$ |  | \$ |     | \$ |     | \$ |     | \$     |     |    |
| For the period from January 1, 2011 to November 1,<br>2011   | \$ |     | \$ |  | \$ |     | \$ |     | \$ |     | \$ 351 |     |    |
| For the year ended December 31, 2010                         | \$ |     | \$ |  | \$ | 143 | \$ | 184 | \$ | 246 | \$     | 758 | \$ |

F-15

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

|  | Successor |            |                    |                    | Predecessor                                       |           |           |     |
|--|-----------|------------|--------------------|--------------------|---|-----------|-----------|-----|
|  | TC3       | Merger     | FVTech             | HTMS               | Chapin  | CEA       | EquiClaim |     |
| <b>Other Information:</b>                            |           |            |                    |                    |   |           |           |     |
| Total consideration Parent common stock (in shares)  |           | 245,000    |                    |                    |   |           |           |     |
| Total consideration Class A common stock (in shares) |           |            |                    | 152,532            | 209,026   |           |           |     |
| Gross contractual accounts receivable                | \$        | \$ 181,398 | \$ 1,774           | \$ 3,286           | \$ 1,720  | \$ 15,873 | \$ 2,094  |     |
| Amount not expected to be collected                  | \$        | \$ 5,884   | \$ 38              | \$ 16              | \$ 398  | \$ 1,461  | \$ 111    |     |
| Goodwill expected to be deductible for tax purposes  | \$        | \$         | \$ 18,834          | \$ 9,339           | \$ 18,020   | \$        | \$ 39,483 |     |
| <b>Contingent Consideration Information:</b>         |           |            |                    |                    |   |           |           |     |
| Contingent consideration range                       |           |            |                    |                    | Maximum of 627,080 shares of Class A common stock |           |           |     |
| Remaining performance period applicable              | N/A       | N/A        | \$0-40,000<br>2012 | \$0-14,000<br>2012 | N/A   | N/A       | N/A       | N/A |
| Type of measurement                                  | N/A       | N/A        | Level 3            | Level 3            | Level 3   | Level 3   | Level 3   | N/A |
| <i>Key assumptions at the acquisition date:</i>      |           |            |                    |                    |   |           |           |     |
| Discount rate  | N/A       | N/A        | 11.60%             | 20.50%             | N/A   | 12.60%    | N/A       | N/A |
| Expected performance                                 | N/A       | N/A        | \$1,500-<br>27,000 | 90%<br>probability | 20% to 70%<br>probability                         | N/A       | N/A       | N/A |
| Class A common stock price                           | N/A       | N/A        | N/A                | N/A                | \$13.28   | N/A       | N/A       | N/A |
| Marketability discount                               | N/A       | N/A        | N/A                | N/A                | 8%  | N/A       | N/A       | N/A |

*Increase (decrease) to net income:*

|   |    |    |          |          |          |         |    |    |
|---|----|----|----------|----------|----------|---------|----|----|
| For the year ended December 31, 2012              | \$ | \$ | \$       | \$       | \$       | \$      | \$ | \$ |
| Period from November 2, 2011 to December 31, 2011 | \$ | \$ | \$ 2,690 | \$ 3,100 | \$       | \$      | \$ | \$ |
| Period from January 1, 2011 to November 1, 2011   | \$ | \$ | \$ 4,480 | \$ 3,650 | \$       | \$ (59) | \$ | \$ |
| For the year ended December 31, 2010              | \$ | \$ | \$ 6,680 | \$ 1,480 | \$ 1,134 | \$      | \$ | \$ |

The Company generally recognizes goodwill attributable to the assembled workforce and expected synergies among the operations of the 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. In the case of the Merger, because opportunities for synergies are more limited, the Company attributed the goodwill to the assembled workforce, the Company's market position, competitive position, revenue base and industry trends.

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

In November 2011, the Company paid cash of \$2,800 in full satisfaction of the former Chapin equity holders contingent right to receive Class A common stock.

During the year ended December 31, 2012, the Company retrospectively adjusted the goodwill balance, as of the Merger, primarily to reflect the final fair value determination of the Company's tax receivable agreements to related parties and deferred income tax liabilities that were

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

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, \$16,241 and

F-16

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

\$22,236, respectively, as compared to the amounts previously reported. In addition, these retrospective adjustments resulted in a decrease to accretion for the period from November 2, 2011 to December 31, 2011 of \$457 and an increase to income tax benefit for the period from November 2, 2011 to December 31, 2011 of \$625, as compared to amounts previously presented.

**Pro Forma Information**

The following represents the unaudited pro forma results of consolidated operations as if the Merger had been reflected in the operating results beginning January 1, 2010 and the CEA acquisition had been reflected in the operating results beginning January 1, 2009.

|                                      | <b>For the Year Ended December 31,</b> |              |
|--------------------------------------|--|--------------|
|                                      | <b>2011</b>                            | <b>2010</b>  |
| Revenues                             | \$ 1,121,950                           | \$ 1,066,623 |
| Net loss attributable to Emdeon Inc. | \$ (54,412)                            | \$ (70,665)  |

The supplemental pro forma earnings for the years ended December 31, 2011 and 2010 were adjusted to exclude the following:

|   | <b>For the Year Ended December 31,</b> |             |
|---|--|-------------|
|   | <b>2011</b>                            | <b>2010</b> |
| 2011 Transactions related costs                                   | \$ 84,482                              | \$          |
| Acquisition costs related to CEA                                  | \$                                     | \$ 758      |
| Transaction related fees paid upon closing of the CEA acquisition | \$                                     | \$ 5,375    |

**5. Property and Equipment**

Property and equipment as of December 31, 2012 and 2011, consists of the following:

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Computer equipment                       | \$ 41,986   | \$ 30,950   |
| Production equipment                     | 19,901      | 18,910      |
| Office equipment, furniture and fixtures | 11,764      | 11,212      |
| Software                                 | 75,588      | 28,881      |
| Technology                               | 156,523     | 148,764     |
| Leasehold improvements                   | 23,555      | 20,514      |
| Construction in process                  | 27,678      | 29,027      |
|  | 356,995     | 288,258     |
| Less accumulated depreciation            | (84,907)    | (10,490)    |
| Property and equipment, net              | \$ 272,088  | \$ 277,768  |

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

Depreciation expense was \$74,777, \$10,490, \$51,878 and \$51,596 for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively.

F-17



**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****6. Goodwill and Intangible Assets**

The following table presents the changes in the carrying amount of goodwill for the indicated periods.

|  | <b>Payer</b> | <b>Provider</b> | <b>Pharmacy</b> | <b>Total</b> |
|--|--------------|-----------------|-----------------|--------------|
| Balance at December 31, 2010 (Predecessor) | \$ 322,101   | \$ 502,227      | \$ 83,982       | \$ 908,310   |
| Acquisitions                               | 18,079       |                 |                 | 18,079       |
| Other                                      |              | (825)           |                 | (825)        |
| Balance at November 1, 2011 (Predecessor)  | 340,180      | 501,402         | 83,982          | 925,564      |
| Eliminate Predecessor goodwill             | (340,180)    | (501,402)       | (83,982)        | (925,564)    |
| Record Successor goodwill                  | 508,766      | 761,870         | 172,938         | 1,443,574    |
| Balance at December 31, 2011 (Successor)   | 508,766      | 761,870         | 172,938         | 1,443,574    |
| Acquisition                                | 38,634       |                 |                 | 38,634       |
| Other                                      | (108)        | (173)           | (38)            | (319)        |
| Balance at December 31, 2012 (Successor)   | \$ 547,292   | \$ 761,697      | \$ 172,900      | \$ 1,481,889 |

Intangible assets subject to amortization as of December 31, 2012 consist of the following:

|                           | <b>Weighted Average<br/>Remaining<br/>Life</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net</b>   |
|---------------------------|--|--------------------------------------|-------------------------------------|--------------|
| Customer relationships    | 18.4   | \$ 1,641,810                         | \$ (96,862)                         | \$ 1,544,948 |
| Tradenames                | 18.5   | 19,000                               | (15,889)                            | 3,111        |
| Data sublicense agreement | 4.8  | 156,530                              | (9,218)                             | 147,312      |
| Non-compete agreements    | 3.6  | 12,800                               | (2,972)                             | 9,828        |
| Backlog                   | 0.3  | 31,000                               | (6,110)                             | 24,890       |
| Total                     |  | \$ 1,861,140                         | \$ (131,051)                        | \$ 1,730,089 |

Amortization expense was \$112,448, \$18,604, \$76,883 and \$73,125 for the year December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively. Aggregate future amortization expense for intangible assets is estimated to be:

|      |            |
|------|------------|
| 2013 | \$ 102,889 |
| 2014 | 99,778     |
| 2015 | 99,371     |
| 2016 | 98,785     |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|            |              |
|------------|--------------|
| 2017       | 95,573       |
| Thereafter | 1,233,693    |
|            | \$ 1,730,089 |

**7. Debt Issuance Costs**

As of December 31, 2012 and 2011, the total unamortized debt issuance costs were \$24,422 and \$35,214, respectively, and are included in other assets in the accompanying consolidated balance sheets.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****8. Accrued Expenses**

Accrued expenses as of December 31, 2012 and 2011 consist of the following:

|  | 2012       | 2011       |
|--|------------|------------|
| Customer deposits  | \$ 27,773  | \$ 27,383  |
| Accrued compensation   | 21,205     | 16,257     |
| Accrued rebates  | 5,668      | 6,187      |
| Accrued telecommunications   | 5,121      | 3,676      |
| Accrued outside services   | 9,138      | 10,367     |
| Accrued insurance  | 3,778      | 3,237      |
| Accrued income, sales and other taxes                                      | 2,816      | 4,504      |
| Accrued interest   | 1,968      | 15,317     |
| Interest rate swap agreement   | 2,563      |            |
| Accrued liabilities for purchases of property and equipment                | 4,383      | 5,841      |
| Current portion of tax receivable agreement obligations to related parties | 1,139      | 334        |
| Pass-through payments  | 3,330      | 20,704     |
| Other accrued liabilities  | 13,187     | 18,289     |
|  | \$ 102,069 | \$ 132,096 |

**9. 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*), 11.00% 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 December 31, 2012 and 2011 consisted of the following:

|  | 2012         | 2011         |
|--|--------------|--------------|
| <i>Senior Credit Facilities</i>  |              |              |
| \$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$32,426 and \$38,160 at December 31, 2012 and December 31, 2011, respectively (effective interest rate of 5.82% and 7.79% at December 31, 2012, and December 31, 2011 respectively) | \$ 1,258,758 | \$ 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 \$8,506 and \$9,257 at December 31, 2012 and December 31, 2011, respectively (effective interest rate of 11.53% at December 31, 2012 and December 31, 2011, respectively)                               | 366,494      | 365,743      |
| \$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$10,393 and \$11,134 at December 31, 2012 and December 31, 2011 respectively (effective interest rate of 11.86% at  | 364,607      | 363,866      |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

December 31, 2012 and December 31, 2011, respectively)

|   |              |              |
|---|--------------|--------------|
| <i>Obligation under data sublicense agreement</i> | 26,863       | 30,659       |
| Less current portion                              | (17,330)     | (16,034)     |
| Long-term debt                                    | \$ 1,999,392 | \$ 1,945,074 |

F-19

---

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)*****Senior Credit Facilities***

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

Borrowings under the Senior Credit Facilities bear interest at an annual rate equal to an applicable margin plus, at the Company's option, either (a) a base rate determined by reference to the highest of (i) the applicable prime rate, (ii) the federal funds rate plus 0.50% and (iii) a LIBOR rate determined by reference to the costs of funds for U.S. 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 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, 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 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 year ended December 31, 2012, 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 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.

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

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.

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

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

enter into agreements limiting dividends and distributions of certain subsidiaries.

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

### *Senior Notes*

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

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,

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

2015, the Company may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at its option and on one or more occasions, at a redemption price equal to 100% of the principal amount, plus an applicable premium and accrued and unpaid interest. If the Company experiences specific kinds of changes in control, the Company 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 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.

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***



## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

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 December 31, 2012). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

### *Aggregate Future Maturities*

The aggregate amounts of future maturities under long-term debt arrangements are as follows:

| Years Ending December 31, |              |
|---------------------------|--------------|
| 2013                      | \$ 17,330    |
| 2014                      | 18,309       |
| 2015                      | 19,442       |
| 2016                      | 20,745       |
| 2017                      | 16,083       |
| Thereafter                | 1,976,138    |
|                           | \$ 2,068,047 |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****10. 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 which 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. Prior to the Merger, the Company entered into an interest rate swap agreement with an original maturity of December 2011. In connection with the 2011 Transactions, this prior interest rate swap was terminated. In January 2012, the Company executed three new interest rate swap agreements to hedge the variable cash flows associated with existing variable-rate debt pursuant to the Term Loan Facility. As of December 31, 2012, the Company had 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 \$2,563 will be reclassified as an increase to interest expense.

The following table summarizes the fair value of the Company's derivative instruments at December 31, 2012 and 2011, respectively:

|   | Fair Values of Derivative Instruments |            |      |
|---|---------------------------------------|------------|------|
|   | Asset (Liability) Derivatives         |            |      |
|   | Balance Sheet Location                | 2012       | 2011 |
| <b>Derivatives designated as hedging instruments:</b> |                                       |            |      |
| Interest rate swap                                    | Accrued expenses                      | \$ (2,563) | \$   |
| Interest rate swap                                    | Other long-term liabilities           | \$ (3,258) | \$   |
|   |                                       | \$ (5,821) | \$   |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)*****Tabular Disclosure of the Effect of Derivative Instruments on the Statement of Operations***

The effect of the derivative instruments on the accompanying consolidated statements of operations for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively, is summarized in the following table:

|   | <b>Successor</b>    |                     | <b>Predecessor</b> |                     |
|---|---------------------|---------------------|--------------------|---------------------|
|   | <b>Fiscal</b>       | <b>November 2</b>   | <b>January 1</b>   | <b>Fiscal</b>       |
|   | <b>Year end</b>     | <b>through</b>      | <b>through</b>     | <b>Year end</b>     |
|   | <b>December 31,</b> | <b>December 31,</b> | <b>November 1,</b> | <b>December 31,</b> |
|   | <b>2012</b>         | <b>2012</b>         | <b>2011</b>        | <b>2010</b>         |
| <b>Derivatives in Cash Flow Hedging Relationships</b>   |                     |                     |                    |                     |
| (Gain)/loss related to effective portion of derivative recognized in other comprehensive loss                                     | \$ 8,194            | \$                  | \$                 | \$ (6,690)          |
| Gain/(loss) related to effective portion of derivative reclassified from accumulated other comprehensive loss to interest expense | \$ (2,373)          | \$                  | \$ (11,645)        | \$ (22,309)         |
| <b>Derivatives Not Designated as Hedging Instruments</b>  |                     |                     |                    |                     |
| Gain recognized in interest expense   | \$                  | \$ 2,755            | \$ 7,983           | \$ 3,980            |

***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 December 31, 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 \$6,838. If the Company had breached any of these provisions at December 31, 2012, the Company could have been required to settle its obligations under the agreements at this termination value. The Company does not offset any derivative instruments and the derivative instruments are not subject to collateral posting requirements.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****11. 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 December 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall.

| Description                          | Balance at<br>December 31, 2012 | Quoted in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--------------------------------------|---------------------------------|--|---|--|
| Interest Rate Swap                   | \$ (5,821)                      | \$   | \$ (5,821)  | \$   |
| Contingent Consideration Obligations | (296)                           |  |   | (296)  |
| <b>Total</b>                         | <b>\$ (6,117)</b>               | <b>\$</b>  | <b>\$ (5,821)</b>                                   | <b>\$ (296)</b>                                    |

The valuation of the Company's derivative financial instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair value of the interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates derived from observable market interest rate curves.

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 December 31, 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.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

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

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

|   | Successor                                    |   | Predecessor                                 |  |
|---|--|---|---|--|
|   | Fiscal<br>Year Ended<br>December 31,<br>2012 | November 2<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 | Fiscal<br>Year Ended<br>December 31,<br>2010 |
| Balance at beginning of period              | \$ (501)                                     | \$ (9,163)                                    | \$ (16,046)                                 | \$   |
| Issuances of contingent consideration       |  | (49)  | (2,154)                                     | (25,330)                                     |
| Settlement of contingent consideration      | 205  | 2,868   | 1,001                                       |  |
| Total changes included in other income, net |  | 5,843   | 8,036                                       | 9,284  |
| Balance at end of period                    | \$ (296)                                     | \$ (501)                                      | \$ (9,163)                                  | \$ (16,046)                                  |

**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 December 31, 2012 were:

|                                    | Carrying<br>Amount | Fair Value   |
|------------------------------------|--------------------|--------------|
| Cash and cash equivalents          | \$ 31,763          | \$ 31,763    |
| Accounts receivable                | \$ 190,021         | \$ 190,021   |
| Senior Credit Facilities (Level 1) | \$ 1,258,758       | \$ 1,302,481 |
| Senior Notes (Level 2)             | \$ 731,101         | \$ 875,393   |
| Cost method investment (Level 3)   | \$ 3,458           | \$ 4,165     |

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.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****12. Lease Commitments**

The Company recognizes lease expense on a straight-line basis, including predetermined fixed escalations, over the initial lease term including reasonably assured renewal periods from the time that the Company controls the leased property.

The Company leases its offices and other facilities under operating lease agreements that expire at various dates through 2025. Future minimum lease commitments under these non-cancelable lease agreements as of December 31, 2012 were as follows:

|                                  |               |
|----------------------------------|---------------|
| Years Ending December 31:        |               |
| 2013                             | \$ 8,990      |
| 2014                             | 8,893         |
| 2015                             | 8,002         |
| 2016                             | 7,828         |
| 2017                             | 6,834         |
| Thereafter                       | 15,129        |
| <br>Total minimum lease payments | <br>\$ 55,676 |

Total rent expense for all operating leases was \$11,193, \$1,748, \$8,176 and \$8,729 for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended, December 2010, respectively.

**13. Legal Proceedings**

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

**14. Noncontrolling Interests**

The Company executed transactions that both increased and decreased its ownership interest in EBS Master in the Predecessor periods. 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:

|   | Predecessor                                  |  |
|---|--|--|
|   | January 1,<br>through<br>November 1,<br>2011 | Fiscal<br>Year end<br>December 31,<br>2010 |
| Net income (loss) attributable to Emdeon Inc. | \$ (24,691)                                  | \$ 19,546                                  |

Transfers from the noncontrolling interest:

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |             |           |
|--|-------------|-----------|
| Increase in Emdeon Inc. paid-in capital for the issuance of EBS Units in connection with acquisitions          |             | 4,369     |
| Increase in Emdeon Inc. paid-in capital for issuance of EBS Units in connection with equity compensation plans | 2,303       | 983       |
| Increase in Emdeon Inc. paid-in capital for exchange of EBS Units to Class A common stock                      |             | 425       |
| Increase in Emdeon Inc. paid-in capital for cancellation of EBS Units  |             | 127       |
| Net transfers from noncontrolling interest   | 2,303       | 5,904     |
| Change from net income attributable to Emdeon Inc. and transfers from noncontrolling interest                  | \$ (22,388) | \$ 25,450 |

F-27

---

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

**15. Equity Compensation Plans**

***Effect of the Merger***

In connection with the 2011 Transactions, the Company's then 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 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 consolidated balance sheet at December 31, 2012.

***Equity Awards Prior to the Merger***

In connection with the IPO, the Company reserved 17,300,000 shares of Class A common stock for issuance to employees, directors and consultants under the 2009 Plan and also entered into individual award agreements with certain of the Company's directors and senior management for EBS Units ( the Management Awards ). The equity granted in connection with the IPO pursuant to the 2009 Plan and Management Awards replaced outstanding awards under the Amended and Restated EBS Executive Equity Incentive Plan and Amended and Restated EBS Incentive Plan. As these awards were issued in connection with the conversion of prior equity awards, the fair value was derived from the allocation of the remaining compensation expense previously associated with the prior equity awards to the respective share based payments received (i.e., EBS Units, restricted stock units, shares of Class A common stock and stock options) on a relative fair value basis.

In addition to the awards issued in connection with the conversion of the prior equity awards, the Company issued restricted stock units and stock options of the Company, some of which contained performance conditions as described below.

***EBS Units and Restricted Class A common stock units***

The fair value of EBS Units and restricted stock units was determined based on the closing trading price of the Class A common stock on the grant date. Upon vesting, the EBS Units, together with the corresponding shares of Class B common stock, were exchangeable for Class A common stock on a one-for-one basis. Upon vesting, restricted stock units converted into Class A common stock.

In connection with the vesting of all outstanding awards immediately prior to and in connection with the Merger, all remaining unrecognized compensation expense was recognized and is reflected in the Predecessor period from January 1, 2011 to November 1, 2011. The weighted average grant date fair value of restricted Class A common stock units issued during the year ended December 31, 2011 was \$15.39. The total fair value of the EBS Units and restricted Class A common stock units vested during the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010 was \$0, \$16,649 and \$9,383, respectively.



**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

*Options to Purchase Shares of Class A common stock*

Options to purchase shares of Class A common stock were granted under the 2009 Plan both in connection with the conversion of the prior equity awards and as new awards to certain employees and directors of the Company. Option awards were generally granted with a term of ten years, an exercise price equal to the market price of the Class A common stock on the date of grant, and with vesting periods of three to four years. The fair value of the options issued in connection with the conversion of the prior equity awards was derived by the allocation of the remaining compensation expense associated with the prior equity awards to the converted awards on a relative fair value basis. The Company calculated the fair value of the new options granted under the 2009 Plan using the Black-Scholes option pricing model.

In connection with the vesting of all outstanding options immediately prior to and in connection with the Merger, all remaining unrecognized compensation expense was recognized and is reflected in the Predecessor period from January 1, 2011 to November 1, 2011.

*Performance Awards*

The Company issued unvested EBS Units, options to purchase Class A common stock and restricted Class A common stock units that contain performance conditions.

Executive Chairman: With respect to performance awards issued to the Company's former executive chairman in connection with the conversion of the prior equity awards, the Company issued 206,578 unvested EBS Units and options to purchase 643,422 shares of Class A common stock that vested over three years. The replacement awards issued were subject to the same financial target performance conditions as the prior equity awards. The unvested EBS Units and options were earned and vested based upon continued employment and the attainment of certain financial performance objectives. The fair value of these awards was derived consistent with other converted awards by the allocation of the remaining compensation expense of the prior equity awards with performance conditions based on relative fair value of the share based payments issued. The fair value of these unvested EBS Units that were subject to performance conditions issued in connection with the conversion was \$11.01 per unit.

The fair value of options granted in connection with the conversion of the prior equity awards that were subject to performance conditions was \$5.26 per option. In connection with the Merger, 40% of performance based EBS Units and options were earned and vested and the remaining 60% were cancelled. The Company recorded \$1,631 of compensation expense related to the accelerated vesting of these awards, which is reflected in the Predecessor period from January 1, 2011 to November 1, 2011.

Other Management: During 2010, the Company issued 150,000 restricted Class A common stock units, one half of which were scheduled to vest after three years and one half of which were scheduled to vest after four years, with vesting accelerated if certain financial performance targets were achieved, to certain members of management who joined the Company following the CEA acquisition. The grant date fair value of these restricted Class A common stock units was \$12.15. In connection with the vesting of all outstanding awards immediately prior to and in connection with the Merger, all remaining unrecognized compensation expense was recognized and is reflected in the Predecessor period from January 1, 2011 to November 1, 2011.

---

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

***Parent Awards***

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.

During 2012, Parent granted 113,595 options to certain employees and directors 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 December 31, 2012, unrecognized compensation expense related to Tier I Time Options was \$20,386. This expense is expected to be recognized over a weighted average period of 2.40 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 December 31, 2012, unrecognized compensation expense related to the Tier II Time Options was \$5,606. This expense is expected to be recognized over a weighted average period of 2.50 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 December 31, 2012, unrecognized compensation expense related to the performance options was \$19,474.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)***Activity Summary*

A summary of option activity under the Parent Equity Plan for the year ended December 31, 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 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   |                     | 5,410.0          | \$                              | \$ 250           |                                   | 9.8              | \$                        | \$ 4,058         |
| Granted                          | 48,172.5            |                  |                                 | 1,000            |                                   |                  |                           |                  |
| Exercised                        |                     |                  |                                 |                  |                                   |                  |                           |                  |
| Expired                          |                     |                  |                                 |                  |                                   |                  |                           |                  |
| Forfeited                        | (2,167.5)           |                  |                                 |                  |                                   |                  |                           |                  |
| Rollover Options settled         |                     | (1,075.0)        |                                 | 250              |                                   |                  |                           |                  |
| Outstanding at December 31, 2012 | 46,005.0            | 4,335.0          | \$ 1,000                        | \$ 250           | 9.6                               | 8.8              | \$                        | \$ 3,251         |
| Exercisable at December 31, 2012 | 8,596.0             | 4,335.0          | \$ 1,000                        | \$ 250           | 9.6                               | 8.8              | \$                        | \$ 3,251         |

**Options Valued Using a Monte Carlo Simulation**

|                                  | Options              |                     | Weighted Average Exercise Price |                     | Weighted Average 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                          | 18,350.0             | 47,072.5            | 2,500                           | 1,000               |                                   |                     |                           |                     |
| Exercised                        |                      |                     |                                 |                     |                                   |                     |                           |                     |
| Expired                          |                      |                     |                                 |                     |                                   |                     |                           |                     |
| Forfeited                        | (900.0)              | (2,167.5)           |                                 |                     |                                   |                     |                           |                     |
| Outstanding at December 31, 2012 | 17,450.0             | 44,905.0            | \$ 2,500                        | \$ 1,000            | 9.5                               | 9.6                 | \$                        | \$                  |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|                                  |         |          |    |     |    |    |
|----------------------------------|---------|----------|----|-----|----|----|
| Exercisable at December 31, 2012 | 3,490.0 | \$ 2,500 | \$ | 9.5 | \$ | \$ |
|----------------------------------|---------|----------|----|-----|----|----|

F-31

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit 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 year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively:

|                             | Successor                           |                         |                        | Predecessor                                    |  |   |
|-----------------------------|-------------------------------------|-------------------------|------------------------|--|--|---|
|                             | Fiscal Year Ended December 31, 2012 |                         |                        | November 2,<br>2011 to<br>December 31,<br>2011 | January 1,<br>2011 to<br>November 1,<br>2011 | Fiscal<br>Year<br>Ended<br>December 31,<br>2010 |
|                             | Tier I<br>Time Options              | Tier II<br>Time Options | Performance<br>Options | Rollover<br>Options                            | Options                                      | Options   |
| Weighted average fair value | \$ 567.88                           | \$ 381.50               | \$ 433.67              | \$ 762.51                                      | \$ 6.66                                      | \$ 6.95   |
| Expected dividend yield     |                                     |                         |                        |  |  |   |
| Expected volatility         | 61.80%                              | 57.63%                  | 57.63%                 | 29.16%   | 40.26%                                       | 43.10%  |
| Risk-free interest rate     | 0.84%                               | 1.57%                   | 1.57%                  | 0.90%  | 2.51%  | 2.53%   |
| Expected term (years)       | 6.15                                | N/A                     | N/A                    | 5.0  | 6.3  | 6.3   |

Expected dividend yield The Company is subject to limitations on the payment of dividends under its Senior Credit Facilities as further discussed in Note 9 above to these 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 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 year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, the Company recognized expense of \$6,842, \$0, \$54,932 and \$17,722, and an income tax benefit of \$0, \$0, \$15,216 and \$4,787, respectively, in the aggregate related to its equity compensation arrangements.

**16. Retirement Plans**

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

Employees of the Company may participate in a 401k plan, which provides for matching contributions from the Company. Expenses related to this plan were \$4,040, \$676, \$3,340 and \$2,071 for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively. The maximum Company matching contribution was increased from 2% of eligible compensation in 2010 to 2.5% of eligible compensation in 2011.

F-32

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****17. Income Taxes**

The income tax provision for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively, was as follows:

|   | Fiscal<br>Year end<br>December 31,<br>2012 | Successor<br>November 2<br>through<br>December 31,<br>2011 | Predecessor<br>January 1<br>through<br>November 1,<br>2011 | Fiscal<br>Year end<br>December 31,<br>2010 |
|---|--|--|--|--|
| <b>Current:</b>                             |  |  |  |  |
| Federal                                     | \$ (3,567)                                 | \$ (3,212)   | \$ 18,814  | \$ 18,166                                  |
| State                                       | 1,868                                      | (576)  | 4,432  | 2,177                                      |
| Current income tax provision (benefit)      | (1,699)                                    | (3,788)  | 23,246   | 20,343                                     |
| <b>Deferred:</b>                            |  |  |  |  |
| Federal                                     | (41,210)                                   | (6,014)  | (5,154)  | 12,927                                     |
| State                                       | 2,763                                      | (383)  | (9,891)  | (691)                                      |
| Deferred income tax provision (benefit)     | (38,447)                                   | (6,397)  | (15,045)   | 12,236                                     |
| <b>Total income tax provision (benefit)</b> | <b>\$ (40,146)</b>                         | <b>\$ (10,185)</b>   | <b>\$ 8,201</b>  | <b>\$ 32,579</b>                           |

The differences between the federal statutory rate and the effective income tax rate principally relate to the impact of valuation allowances and uncertain tax positions related to state income taxes, book versus tax basis differences in the Company's investment in EBS Master, non-deductible costs related to the 2011 Transactions and stock compensation expense recorded for book purposes but not deductible for tax. The reconciliation between the federal statutory rate and the effective income tax rate is as follows:

|   | Fiscal<br>Year end<br>December 31,<br>2012 | Successor<br>November 2<br>through<br>December 31,<br>2011 | Predecessor<br>January 1<br>through<br>November 1,<br>2011 | Fiscal<br>Year end<br>December 31,<br>2010 |
|---|--|--|--|--|
| Statutory U.S. federal tax rate             | 35.00%                                     | 35.00%   | 35.00%   | 35.00%                                     |
| State income taxes (net of federal benefit) | (2.95)                                     | 3.68   | 52.49  | 2.78                                       |
| Meals and entertainment                     | (0.29)                                     | (0.65)   | (3.36)   | 0.63                                       |
| 2011 Transactions related costs             |  | (0.49)   | (34.77)  |  |
| Other                                       | (0.05)                                     | (0.64)   | 1.54   | (1.38)                                     |
| Tax credits                                 | 0.16                                       | 0.53   | 11.14  | (0.63)                                     |
| Equity compensation                         |  |  | (62.26)  | 2.06                                       |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|                                 |        |        |          |        |
|---------------------------------|--------|--------|----------|--------|
| Non-timing basis differences    | 0.19   | 0.37   | (89.58)  | 12.49  |
| Noncontrolling interest         |        |        | 15.71    | (7.20) |
| Domestic production activities  | 2.85   |        |          |        |
| Uncertain tax positions         | (1.23) |        |          |        |
| Foreign loss not benefited      | 0.20   | 0.09   | 2.03     | (0.34) |
| Return to provision adjustments |        |        |          | 1.34   |
| Change in valuation allowance   |        |        |          | 4.80   |
| Effective income tax rate       | 33.88% | 37.89% | (72.06)% | 49.55% |

F-33



**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

At December 31, 2012, the Company had net operating loss carryforwards (tax effected) for federal and state income tax purposes of approximately \$121,145 and \$27,886, respectively, which expire from 2027 through 2032 and 2022 through 2027, respectively. A portion of net operating loss carryforwards may be subject to an annual limitation regarding their utilization against taxable income in future periods due to the change of ownership provisions of the Internal Revenue Code and similar state provisions.

The Company and certain of its subsidiaries are included in Parent's consolidated filing group for U.S. federal income tax purposes, as well as in certain state income tax returns that include Parent. With respect to tax returns for any taxable period in which the Company or any of its subsidiaries are included in a tax return filing with Parent, the amount of taxes to be paid by the Company is determined, subject to certain adjustments, as if it and its subsidiaries filed their own tax returns excluding Parent.

Significant components of the Company's deferred tax assets (liabilities) as of December 31, 2012 and 2011 were as follows:

|  | 2012                | 2011                |
|--|---------------------|---------------------|
| <b>Deferred tax assets and (liabilities):</b>          |                     |                     |
| Depreciation and amortization                          | \$ (335,888)        | \$ (336,024)        |
| Investment in partnership                              | (282,656)           | (246,832)           |
| Accounts receivable                                    | 983                 | 1,087               |
| Fair value of interest rate swap                       | 2,159               |                     |
| Accruals and reserves                                  | 344                 | 97                  |
| Capital and net operating losses                       | 152,238             | 89,291              |
| Debt discount and interest                             | (1,074)             | 186                 |
| Equity compensation                                    | 4,338               | 1,632               |
| Valuation allowance                                    | (11,016)            | (8,698)             |
| Tax receivable agreement obligation to related parties | 5,074               | 1,248               |
| Other  | 1,771               | 1,831               |
| <b>Net deferred tax assets and (liabilities)</b>       | <b>\$ (463,727)</b> | <b>\$ (496,182)</b> |
| Reported as:   |                     |                     |
| Current deferred tax assets                            | \$ 4,184            | \$ 5,614            |
| Non-current deferred tax liabilities                   | (467,912)           | (501,796)           |
| <b>Net deferred tax assets and (liabilities)</b>       | <b>\$ (463,727)</b> | <b>\$ (496,182)</b> |

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

|   | Successor                                  |   | Predecessor                                 |  |
|---|--|---|---|--|
|   | Fiscal<br>Year end<br>December 31,<br>2012 | November 2<br>through<br>December 31,<br>2011 | January 1<br>through<br>November 1,<br>2011 | Fiscal<br>Year end<br>December 31,<br>2010 |
| Unrecognized benefit from prior years     | \$ 9,911                                   | \$ 9,354                                      | \$ 1,368                                    | \$ 1,272                                   |
| Decreases from prior period tax positions |  | (1,017)                                       |   |  |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |           |          |          |          |
|--|-----------|----------|----------|----------|
| Increases from prior period tax positions          |           |          | 7,986    |          |
| Increases from current period tax positions        | 1,461     |          |          | 96       |
| Decreases from settlements with taxing authorities | (351)     | 1,574    |          |          |
| Ending unrecognized benefit                        | \$ 11,021 | \$ 9,911 | \$ 9,354 | \$ 1,368 |

F-34

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

The Company had unrecognized tax benefits of \$1,461 and \$228 as of December 31, 2012 and 2011, respectively, that if recognized, would affect the effective income tax rate. The Company does not currently anticipate that the total amount of unrecognized tax positions will significantly increase or decrease in the next twelve months.

The Company recognizes interest income and expense (if any) related to income taxes as a component of income tax expense. The Company recognized interest and penalties of \$0, \$63, \$0, and \$173, for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company's U.S. federal and state income tax returns for the tax years 2009 and beyond remain subject to examination by the Internal Revenue Service. With respect to state and local jurisdictions and countries outside of the United States, the Company and its subsidiaries are typically subject to examination for a number of years after the income tax returns have been filed. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for in the accompanying consolidated financial statements for any adjustments that may be incurred due to state, local or foreign audits.

**18. Tax Receivable Agreement Obligations 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 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 the former majority owner of the Company assigned its rights under the tax receivable agreements to affiliates of Blackstone. 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 \$354,089. \$126,142 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 consolidated balance sheet at December 31, 2012. The accompanying consolidated statement of operations for the year ended December 31, 2012 includes accretion expense of \$8,666, related to this obligation.

During the year ended December 31, 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 repricing amendments to the Senior Credit Agreement, the TC3 acquisition, an increase in state income tax rates and routine updates to financial projections. These revised estimates resulted in an decrease to pretax net loss of \$7,144 for the year ended December 31, 2012.

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

Based on current facts and circumstances, the Company estimates the aggregate payments due under the tax receivable agreements to be as follows:

|   |            |
|---|------------|
| Years Ending December 31:   |            |
| 2013  | \$ 1,139   |
| 2014  | 972        |
| 2015  | 943        |
| 2016  | 978        |
| 2017  | 38,771     |
| Thereafter  | 311,286    |
| Gross expected payments   | 354,089    |
| Less: Amounts representing discount                               | (227,947)  |
| Total tax receivable agreement obligations due to related parties | 126,142    |
| Less: Current portion due (included in accrued expenses)          | (1,139)    |
| Tax receivable agreement obligations due to related parties       | \$ 125,003 |

The timing and/or amount of aggregate payments due may vary based on a number of factors, including the amount and timing of the taxable income the Company generates in the future and the tax rate then applicable, the use of loss carryovers and the portion of payments under the tax receivable agreements constituting imputed interest or amortizable basis.

**19. Other Related Party Transactions*****Transaction and Advisory Fee Agreement***

In connection with the 2011 Transactions, the Company entered into a transaction and advisory fee agreement with Blackstone Management Partners L.L.C., an affiliate of Blackstone ( *BMP* ), and Hellman & Friedman, L.P., an affiliate of H&F ( *HFLP* , and, together with *BMP*, the *Managers* ), for a term of twelve years. Pursuant to the agreement, the Company paid the *Managers*, at the closing of the Merger, a \$30,000 transaction fee in consideration for the *Managers* undertaking financial and structural analysis, due diligence and other assistance related to the Merger and reimbursed the *Managers* for any out-of-pocket expenses incurred by the *Managers* in connection with the Merger and the provision of services under the agreement. In addition, in consideration for certain advisory services, the Company is obligated to pay the *Managers* at the beginning of each fiscal year an aggregate advisory fee of \$6,000 or an agreed upon amount not to exceed 2% of consolidated EBITDA (as defined in the Senior Credit Agreement) for such fiscal year. Pursuant to the agreement, the *Managers* are also entitled to receive transaction fees equal to 1% of the aggregate transaction value upon the consummation of any acquisition, divestiture, disposition, merger, consolidation, restructuring or recapitalization, issuance of private or public debt or equity securities (including an initial public offering of equity securities), financing or similar transaction involving the Company.

Pursuant to the agreement, in connection with or in anticipation of a change in control of the Company, sale of all or substantially all of the assets of the Company or an initial public offering of the equity of the Company or parent entity of the Company or their successors, the *Managers* have the option to receive, in consideration of such *Manager*'s role in facilitating such transaction and in settlement of the termination of the services, a single lump sum cash payment equal to the then-present value of all the then-current and future annual advisory fees payable under the agreement, assuming a remaining twelve-year payment period. To the extent that the Company does not pay the lump sum fee when due, the obligation will accrue interest at an annual rate of 10%, compounded quarterly.

## Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

During the the period from November 2, 2011 to December 31, 2011, the Company paid \$30,000 (\$28,050 to BMP and \$1,950 to HFLP), respectively, in transaction fees. During the year ended December 31, 2012 and the period from November 2,

F-36

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

2011 to December 31, 2011, the Company paid \$6,600 (\$5,985 to BMP and \$615 to HFLP) and \$986 (\$715 to BMP and \$271 to HFLP) in advisory fees and approximately \$200 and \$400, respectively, as reimbursement to BMP for their out of pocket expenses. With respect to the Merger transaction fee, the fee was paid by the Company on behalf of Parent. As a result, the Merger transaction fee was reflected as a reduction of the equity contributed by Parent. The advisory fees were reflected within sales, marketing, general and administrative expense in the accompanying consolidated statements of operations.

***Transaction Fee Letter Agreement***

In connection with the 2011 Transactions, Parent entered into an agreement with Blackstone Advisory Partners L.P. ( BAP ) whereby BAP agreed to provide advisory services, including general business and financial analysis, transaction feasibility analysis, due diligence support, pricing analysis, assistance with negotiations and the development of a general transaction strategy. In exchange for these services, Parent agreed to pay a transaction fee of \$10,000 that was contingent upon the closing of the Merger. Immediately following the Merger, Parent caused the Company to pay \$10,000 to BAP on behalf of Parent. This fee, as it was incurred on behalf of Parent, was reflected as a reduction of the equity contributed by Parent.

***2019 Notes and Term Loans Held by Related Party***

During the year ended December 31, 2012 and the period from November 2, 2011 to December 31, 2011, certain investment funds managed by GSO Capital Partners LP (the GSO-managed funds ) held a portion of the 2019 Notes and the Senior Credit Facilities. GSO Advisor Holdings LLC ( GSO Advisor ) is the general partner of GSO Capital Partners LP. Blackstone, indirectly through its subsidiaries, holds all of the issued and outstanding equity interests of GSO Advisor. As of December 31, 2012 and 2011, the GSO-managed funds held \$100,000 in principal amount of the 2019 Notes and \$43,697 and \$52,500 in principal amount of the Senior Credit Facilities (\$437 and \$525 of which is classified within current portion of long-term debt), respectively.

***Transactions with Blackstone Portfolio Companies***

The Company provides various services to certain Blackstone portfolio companies under contracts that were executed in the normal course of business. The Company recognized revenue of \$3,606, \$769 and \$4,478 related to services provided to Blackstone portfolio companies for the year ended December 31, 2012 and the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011, respectively.

***Transactions with H&F Portfolio Companies***

The Company both provides various services to, and purchases from, certain H&F portfolio companies under contracts that were executed in the normal course of business. The Company recognized revenue of \$1,885, \$206, \$1,174, and \$1,266 related to services provided to H&F portfolio companies for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively. The Company paid H&F portfolio companies \$101, \$0, \$247 and \$143 related to services provided to the Company for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, respectively.

***Other***

During 2009, the Company executed an agreement with a company in which the former majority owner of the Company had a substantial ownership interest, to outsource certain mailroom and verification services. Under this agreement, the Company paid the vendor approximately \$2,202 and \$3,855 in 2011 and 2010, respectively, in connection with services received under this agreement. In May 2011, the former majority owner of the Company sold all of its interests in the company.



**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

**20. Segment Reporting**

During 2012, management viewed 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 Note 2 to these consolidated financial statements.

***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 benefits 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 information exchange capabilities, both directly and through the Company's channel partners, that simplify the providers' revenue cycle and workflow, reduce related costs and improve cash flow.

***Pharmacy Services Segment***

The pharmacy services segment provides electronic prescribing 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.



**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

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

**Successor - For the Year Ended December 31, 2012**

|  | <b>Payer</b> | <b>Provider</b> | <b>Pharmacy</b> | <b>Corporate &amp; Eliminations</b> | <b>Consolidated</b> |
|--|--------------|-----------------|-----------------|-------------------------------------|---------------------|
| Revenue from external customers              |              |                 |                 |                                     |                     |
| Claims management                            | \$ 237,458   | \$              | \$              | \$                                  | \$ 237,458          |
| Payment services                             | 261,163      |                 |                 |                                     | 261,163             |
| Patient statements                           |              | 253,673         |                 |                                     | 253,673             |
| Revenue cycle management                     |              | 299,090         |                 |                                     | 299,090             |
| Dental                                       |              | 31,586          |                 |                                     | 31,586              |
| Pharmacy services                            |              |                 | 95,301          |                                     | 95,301              |
| Inter-segment revenues                       | 4,226        | 888             | 350             | (5,464)                             |                     |
| Net revenue                                  | 502,847      | 585,237         | 95,651          | (5,464)                             | 1,178,271           |
| Costs and expenses                           |              |                 |                 |                                     |                     |
| Cost of operations                           | 332,025      | 365,220         | 39,484          | (5,204)                             | 731,525             |
| Development and engineering                  | 10,927       | 14,371          | 6,496           |                                     | 31,794              |
| Sales, marketing, general and administrative | 35,705       | 39,937          | 5,810           | 60,734                              | 142,186             |
| Accretion                                    |              |                 |                 | 8,666                               | 8,666               |
| Transaction related costs                    |              |                 |                 | 1,250                               | 1,250               |
| Segment contribution                         | \$ 124,190   | \$ 165,709      | \$ 43,861       | \$ (70,910)                         | 262,850             |
| Depreciation and amortization                |              |                 |                 |                                     | 187,225             |
| Interest expense, net                        |              |                 |                 |                                     | 172,253             |
| Loss on extinguishment of debt               |              |                 |                 |                                     | 21,853              |
| Loss before income tax provision             |              |                 |                 |                                     | \$ (118,481)        |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Successor - For the period from November 2, 2011 to December 31, 2011**

|  | <b>Payer</b> | <b>Provider</b> | <b>Pharmacy</b> | <b>Corporate &amp;<br/>Eliminations</b> | <b>Consolidated</b> |
|--|--------------|-----------------|-----------------|---|---------------------|
| Revenue from external customers              |              |                 |                 |   |                     |
| Claims management                            | \$ 35,004    | \$              | \$              | \$                                      | \$ 35,004           |
| Payment services                             | 42,207       |                 |                 |   | 42,207              |
| Patient statements                           |              | 41,927          |                 |   | 41,927              |
| Revenue cycle management                     |              | 51,123          |                 |   | 51,123              |
| Dental                                       |              | 5,167           |                 |   | 5,167               |
| Pharmacy services                            |              |                 | 14,956          |   | 14,956              |
| Inter-segment revenues                       | 514          | 107             | 62              | (683)                                   |                     |
| Net revenue                                  | 77,725       | 98,324          | 15,018          | (683)                                   | 190,384             |
| Costs and expenses                           |              |                 |                 |   |                     |
| Cost of operations                           | 51,102       | 60,710          | 6,252           | (643)                                   | 117,421             |
| Development and engineering                  | 1,940        | 2,234           | 979             |   | 5,153               |
| Sales, marketing, general and administrative | 5,870        | 4,518           | 830             | 10,560                                  | 21,778              |
| Accretion                                    |              |                 |                 | 2,459                                   | 2,459               |
| Transaction related costs                    |              |                 |                 | 17,857                                  | 17,857              |
| Segment contribution                         | \$ 18,813    | \$ 30,862       | \$ 6,957        | \$ (30,916)                             | 25,716              |
| Depreciation and amortization                |              |                 |                 |   | 29,094              |
| Interest expense, net                        |              |                 |                 |   | 29,343              |
| Other  |              |                 |                 |   | (5,843)             |
| Loss before income tax provision             |              |                 |                 |   | \$ (26,878)         |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Predecessor - For the period from January 1, 2011 to November 1, 2011**

|  | <b>Payer</b> | <b>Provider</b> | <b>Pharmacy</b> | <b>Corporate &amp;<br/>Eliminations</b> | <b>Consolidated</b> |
|--|--------------|-----------------|-----------------|---|---------------------|
| Revenue from external customers              |              |                 |                 |   |                     |
| Claims management                            | \$ 171,288   | \$              | \$              | \$                                      | \$ 171,288          |
| Payment services                             | 206,828      |                 |                 |   | 206,828             |
| Patient statements                           |              | 213,585         |                 |   | 213,585             |
| Revenue cycle management                     |              | 240,861         |                 |   | 240,861             |
| Dental                                       |              | 25,926          |                 |   | 25,926              |
| Pharmacy services                            |              |                 | 70,776          |   | 70,776              |
| Inter-segment revenue                        | 2,845        | 450             |                 | (3,295)                                 |                     |
| Net revenue                                  | 380,961      | 480,822         | 70,776          | (3,295)                                 | 929,264             |
| Costs and expenses                           |              |                 |                 |   |                     |
| Cost of operations                           | 255,437      | 291,055         | 29,134          | (3,085)                                 | 572,541             |
| Development and engineering                  | 8,700        | 11,693          | 5,697           |   | 26,090              |
| Sales, marketing, general and administrative | 26,905       | 38,385          | 5,078           | 41,095                                  | 111,463             |
| Transaction related costs                    | 10,443       | 9,029           | 2,282           | 44,871                                  | 66,625              |
| Segment contribution                         | \$ 79,476    | \$ 130,660      | \$ 28,585       | \$ (86,176)                             | 152,545             |
| Depreciation and amortization                |              |                 |                 |   | 128,761             |
| Interest expense, net                        |              |                 |                 |   | 43,201              |
| Other income                                 |              |                 |                 |   | (8,036)             |
| Loss before income tax provision             |              |                 |                 |   | \$ (11,381)         |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Predecessor - For the Year Ended December 31, 2010**

|  | <b>Payer</b> | <b>Provider</b> | <b>Pharmacy</b> | <b>Corporate &amp;<br/>Eliminations</b> | <b>Consolidated</b> |
|--|--------------|-----------------|-----------------|---|---------------------|
| Revenue from external customers              |              |                 |                 |   |                     |
| Claims management                            | \$ 192,385   | \$              | \$              | \$                                      | \$ 192,385          |
| Payment services                             | 234,176      |                 |                 |   | 234,176             |
| Patient statements                           |              | 262,521         |                 |   | 262,521             |
| Revenue cycle management                     |              | 199,873         |                 |   | 199,873             |
| Dental                                       |              | 31,403          |                 |   | 31,403              |
| Pharmacy services                            |              |                 | 81,794          |   | 81,794              |
| Inter-segment revenue                        | 3,501        | 402             |                 | (3,903)                                 |                     |
| Net revenue                                  | 430,062      | 494,199         | 81,794          | (3,903)                                 | 1,002,152           |
| Costs and expenses                           |              |                 |                 |   |                     |
| Cost of operations                           | 281,853      | 304,245         | 30,044          | (3,775)                                 | 612,367             |
| Development and engineering                  | 9,475        | 13,993          | 7,170           |   | 30,638              |
| Sales, marketing, general and administrative | 28,914       | 33,982          | 6,133           | 47,918                                  | 116,947             |
| Segment contribution                         | \$ 109,820   | \$ 141,979      | \$ 38,447       | \$ (48,046)                             | 242,200             |
| Depreciation and amortization                |              |                 |                 |   | 124,721             |
| Interest expense, net                        |              |                 |                 |   | 61,017              |
| Other income                                 |              |                 |                 |   | (9,284)             |
| Income before income tax provision           |              |                 |                 |   | \$ 65,746           |

**21. 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 year ended December 31, 2012.

|   | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustment</b> | <b>Cash Flow<br/>Hedge</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> |
|---|--|----------------------------|--|
| Balance at January 1, 2012                          | \$ (194)   | \$                         | \$ (194)   |
| Change associated with foreign currency translation | 67   |                            | 67   |
| Change associated with current period hedging       |  | (1,289)                    | (1,289)  |
| Reclassification into earnings                      |  | (2,373)                    | (2,373)  |
| Balance at December 31, 2012                        | \$ (127)   | \$ (3,662)                 | \$ (3,789)   |



**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

**22. Supplemental Condensed Consolidating Financial Information**

In lieu of providing separate annual and interim financial statements for each guarantor of debt securities to be registered, Regulation S-X of 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 at December 31, 2012 and 2011, condensed consolidating statements of operations, comprehensive income (loss) and cash flows for the year ended December 31, 2012, for the periods from November 2, 2011 to December 31, 2011 and January 1, 2011 to November 1, 2011 and for the year ended December 31, 2010, 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 Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Balance Sheet**

|   | Emdeon<br>Inc.      | Successor<br>As of December 31, 2012<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated        |
|---|---------------------|---|------------------------------|---------------------|
| <b>ASSETS</b>   |                     |   |                              |                     |
| Current assets:   |                     |   |                              |                     |
| Cash and cash equivalents                                   | \$ 754              | \$ 31,009   | \$                           | \$ 31,763           |
| Accounts receivable, net of allowance for doubtful accounts |                     | 190,021   |                              | 190,021             |
| Deferred income tax assets                                  |                     | 4,184   |                              | 4,184               |
| Prepaid expenses and other current assets                   | 2,059               | 26,101  |                              | 28,160              |
| <b>Total current assets</b>                                 | <b>2,813</b>        | <b>251,315</b>  |                              | <b>254,128</b>      |
| Property and equipment, net                                 | 3                   | 272,085   |                              | 272,088             |
| Due from affiliates   |                     | 62,933  | (62,933)                     |                     |
| Investment in subsidiaries                                  | 1,839,748           |   | (1,839,748)                  |                     |
| Goodwill  |                     | 1,481,889   |                              | 1,481,889           |
| Intangible assets, net                                      | 151,500             | 1,578,589   |                              | 1,730,089           |
| Other assets, net   | 18,539              | 22,275  | (11,120)                     | 29,694              |
| <b>Total assets</b>   | <b>\$ 2,012,603</b> | <b>\$ 3,669,086</b>   | <b>\$ (1,913,801)</b>        | <b>\$ 3,767,888</b> |
| <b>LIABILITIES AND EQUITY</b>                               |                     |   |                              |                     |
| Current liabilities:  |                     |   |                              |                     |
| Accounts payable  | \$                  | \$ 6,223  | \$                           | \$ 6,223            |
| Accrued expenses  | 5,845               | 96,224  |                              | 102,069             |
| Deferred revenues   |                     | 9,342   |                              | 9,342               |
| Current portion of long-term debt                           | 4,600               | 12,730  |                              | 17,330              |
| <b>Total current liabilities</b>                            | <b>10,445</b>       | <b>124,519</b>  |                              | <b>134,964</b>      |
| Due to affiliates   | 62,933              |   | (62,933)                     |                     |
| Long-term debt, excluding current portion                   | 778,813             | 1,220,579   |                              | 1,999,392           |
| Deferred income tax liabilities                             |                     | 479,032   | (11,120)                     | 467,912             |
| Tax receivable agreement obligations to related parties     | 125,003             |   |                              | 125,003             |
| Other long-term liabilities                                 | 3,258               | 5,208   |                              | 8,466               |
| Commitments and contingencies                               |                     |   |                              |                     |
| <b>Total equity</b>   | <b>1,032,151</b>    | <b>1,839,748</b>  | <b>(1,839,748)</b>           | <b>1,032,151</b>    |
| <b>Total liabilities and equity</b>                         | <b>\$ 2,012,603</b> | <b>\$ 3,669,086</b>   | <b>\$ (1,913,801)</b>        | <b>\$ 3,767,888</b> |





**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Balance Sheet**

|   | Emdeon<br>Inc.      | Successor<br>As of December 31, 2011<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated        |
|---|---------------------|---|------------------------------|---------------------|
| <b>ASSETS</b>   |                     |   |                              |                     |
| 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                                  |                     | 5,614   |                              | 5,614               |
| Prepaid expenses and other current assets                   | 2,072               | 13,797  |                              | 15,869              |
| <b>Total current assets</b>                                 | <b>2,644</b>        | <b>245,724</b>  |                              | <b>248,368</b>      |
| 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               | 31,204  |                              | 40,460              |
| <b>Total assets</b>   | <b>\$ 2,113,550</b> | <b>\$ 3,715,130</b>   | <b>\$ (1,996,613)</b>        | <b>\$ 3,832,067</b> |
| <b>LIABILITIES AND EQUITY</b>                               |                     |   |                              |                     |
| Current liabilities:  |                     |   |                              |                     |
| Accounts payable  | \$                  | \$ 8,827  | \$                           | \$ 8,827            |
| Accrued expenses  | 19,283              | 112,813   |                              | 132,096             |
| Deferred revenues   |                     | 4,671   |                              | 4,671               |
| Current portion of long-term debt                           | 4,074               | 11,960  |                              | 16,034              |
| <b>Total current liabilities</b>                            | <b>23,357</b>       | <b>138,271</b>  |                              | <b>161,628</b>      |
| 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              | 469,915   |                              | 501,796             |
| Tax receivable agreement obligations to related parties     | 117,477             |   |                              | 117,477             |
| Other long-term liabilities                                 |                     | 2,303   |                              | 2,303               |
| Commitments and contingencies                               |                     |   |                              |                     |
| Equity  | 1,103,789           | 1,941,142   | (1,941,142)                  | 1,103,789           |
| <b>Total liabilities and equity</b>                         | <b>\$ 2,113,550</b> | <b>\$ 3,715,130</b>   | <b>\$ (1,996,613)</b>        | <b>\$ 3,832,067</b> |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Operations**

|   | <b>Successor</b>                            |                                   |                                      |                     |
|---|---|-----------------------------------|--------------------------------------|---------------------|
|   | <b>For the Year Ended December 31, 2012</b> |                                   |                                      |                     |
|   | <b>Emdeon Inc.</b>                          | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| Revenue   | \$  | \$ 1,178,271                      | \$                                   | \$ 1,178,271        |
| Costs and expenses:   |   |                                   |                                      |                     |
| Cost of operations (exclusive of depreciation and amortization below) |   | 731,525                           |                                      | 731,525             |
| Development and engineering   |   | 31,794                            |                                      | 31,794              |
| Sales, marketing, general and administrative                          | 9,072                                       | 133,114                           |                                      | 142,186             |
| Depreciation and amortization   | 9,004                                       | 178,221                           |                                      | 187,225             |
| Accretion   | 8,666                                       |                                   |                                      | 8,666               |
| Transaction related costs   | 1,250                                       |                                   |                                      | 1,250               |
| Operating income (loss)   | (27,992)                                    | 103,617                           |                                      | 75,625              |
| Equity in earnings of consolidated subsidiaries                       | (2,905)                                     |                                   | 2,905                                |                     |
| Interest expense, net   | 94,089                                      | 78,164                            |                                      | 172,253             |
| Loss on extinguishment of debt  |   | 21,853                            |                                      | 21,853              |
| Other income, net   |   |                                   |                                      |                     |
| Income (loss) before income tax provision (benefit) (benefit)         | (119,176)                                   | 3,600                             | (2,905)                              | (118,481)           |
| Income tax provision (benefit)  | (40,841)                                    | 695                               |                                      | (40,146)            |
| Net income (loss)   | \$ (78,335)                                 | \$ 2,905                          | \$ (2,905)                           | \$ (78,335)         |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Operations**

|   | Successor<br>November 2 through December 31, 2011 |                           |                              | Consolidated |
|---|---|---------------------------|------------------------------|--------------|
|   | Emdeon Inc.                                       | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments |              |
| Revenue   | \$  | \$ 190,384                | \$                           | \$ 190,384   |
| Costs and expenses:   |   |                           |                              |              |
| Cost of operations (exclusive of depreciation and amortization below) |   | 117,421                   |                              | 117,421      |
| Development and engineering   |   | 5,153                     |                              | 5,153        |
| Sales, marketing, general and administrative                          | 1,385   | 20,393                    |                              | 21,778       |
| Depreciation and amortization   | 1,501   | 27,593                    |                              | 29,094       |
| Accretion   | 2,459   |                           |                              | 2,459        |
| Transaction related costs   | 485   | 17,372                    |                              | 17,857       |
| Operating income (loss)   | (5,830)   | 2,452                     |                              | (3,378)      |
| Equity in earnings of consolidated subsidiaries                       | (3,791)   |                           | 3,791                        |              |
| Interest expense, net   | 25,164  | 4,179                     |                              | 29,343       |
| Other income, net   |   | (5,843)                   |                              | (5,843)      |
| Income (loss) before income tax benefit                               | (27,203)  | 4,116                     | (3,791)                      | (26,878)     |
| Income tax benefit  | (10,510)  | 325                       |                              | (10,185)     |
| Net income (loss)   | \$ (16,693)                                       | \$ 3,791                  | \$ (3,791)                   | \$ (16,693)  |

F-47

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Operations**

|   | Emdeon Inc. | Predecessor<br>January 1 through November 1, 2011<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---|-------------|--|------------------------------|--------------|
| Revenue   | \$          | \$ 929,264   | \$                           | \$ 929,264   |
| Costs and expenses:   |             |  |                              |              |
| Cost of operations (exclusive of depreciation and amortization below) |             | 572,541  |                              | 572,541      |
| Development and engineering   |             | 26,090   |                              | 26,090       |
| Sales, marketing, general and administrative                          | 12,544      | 98,919   |                              | 111,463      |
| Depreciation and amortization   | 3           | 128,758  |                              | 128,761      |
| Accretion expense   |             |  |                              |              |
| Transaction related costs   | 17,767      | 48,858   |                              | 66,625       |
| Operating income (loss)   | (30,314)    | 54,098   |                              | 23,784       |
| Equity in earnings of consolidated subsidiaries                       | (16,482)    |  | 16,482                       |              |
| Interest expense, net   | 2,442       | 40,759   |                              | 43,201       |
| Other income, net   |             | (8,036)  |                              | (8,036)      |
| Income before income tax provision (benefit)                          | (16,274)    | 21,375   | (16,482)                     | (11,381)     |
| Income tax provision (benefit)  | 8,417       | (216)  |                              | 8,201        |
| Net income (loss)   | (24,691)    | 21,591   | (16,482)                     | (19,582)     |
| Net income attributable to noncontrolling interest                    |             |  | 5,109                        | 5,109        |
| Net income (loss) attributable to Emdeon Inc.                         | \$ (24,691) | \$ 21,591  | \$ (21,591)                  | \$ (24,691)  |

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Operations**

|   |             | Predecessor<br>Year Ended December 31, 2010 |                              |              |
|---|-------------|---|------------------------------|--------------|
|   | Emdeon Inc. | Guarantor<br>Subsidiaries                   | Consolidating<br>Adjustments | Consolidated |
| Revenue   | \$          | \$ 1,002,152                                | \$                           | \$ 1,002,152 |
| Costs and expenses:   |             |   |                              |              |
| Cost of operations (exclusive of depreciation and amortization below) |             | 612,367                                     |                              | 612,367      |
| Development and engineering   |             | 30,638                                      |                              | 30,638       |
| Sales, marketing, general and administrative                          | 3,198       | 113,749                                     |                              | 116,947      |
| Depreciation and amortization   |             | 124,721                                     |                              | 124,721      |
| Operating income (loss)   | (3,198)     | 120,677                                     |                              | 117,479      |
| Equity in earnings of consolidated subsidiaries                       | (43,046)    |   | 43,046                       |              |
| Interest expense  | 3,089       | 57,928                                      |                              | 61,017       |
| Other income, net   |             | (9,284)                                     |                              | (9,284)      |
| Income before income tax provision                                    | 36,759      | 72,033                                      | (43,046)                     | 65,746       |
| Income tax provision  | 17,213      | 15,366                                      |                              | 32,579       |
| Net income  | 19,546      | 56,667                                      | (43,046)                     | 33,167       |
| Net income attributable to noncontrolling interest                    |             |   | 13,621                       | 13,621       |
| Net income attributable to Emdeon Inc.                                | \$ 19,546   | \$ 56,667                                   | \$ (56,667)                  | \$ 19,546    |

F-49

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|  | <b>Emdeon Inc.</b> | <b>Successor<br/>Year Ended December 31, 2012<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|--|--------------------|--|--------------------------------------|---------------------|
| Net income (loss)  | \$ (78,335)        | \$ 2,905   | \$ (2,905)                           | \$ (78,335)         |
| Other comprehensive income (loss):                                   |                    |  |                                      |                     |
| Changes in fair value of interest rate swap, net of taxes            | (3,662)            |  |                                      | (3,662)             |
| Other comprehensive income amortization, net of taxes                |                    |  |                                      |                     |
| Foreign currency translation adjustment                              |                    | 67   |                                      | 67                  |
| Equity in other comprehensive earnings                               | 67                 |  | (67)                                 |                     |
| Other comprehensive income (loss)                                    | (3,595)            | 67   | (67)                                 | (3,595)             |
| Total comprehensive income (loss)                                    | (81,930)           | 2,972  | (2,972)                              | (81,930)            |
| Comprehensive income (loss) attributable to non-controlling interest |                    |  |                                      |                     |
| Comprehensive income (loss) attributable to Emdeon Inc.              | \$ (81,930)        | \$ 2,972   | \$ (2,972)                           | \$ (81,930)         |

F-50

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|  |             | Successor<br>November 2 through December 31, 2011 |                              |              |
|--|-------------|---|------------------------------|--------------|
|  | Emdeon Inc. | Guarantor<br>Subsidiaries                         | Consolidating<br>Adjustments | Consolidated |
| Net income (loss)  | \$ (16,693) | \$ 3,791  | \$ (3,791)                   | \$ (16,693)  |
| Other comprehensive income (loss):                                   |             |   |                              |              |
| Changes in fair value of interest rate swap, net of taxes            |             |   |                              |              |
| Other comprehensive income amortization, net of taxes                |             |   |                              |              |
| Foreign currency translation adjustment                              |             | (194)   |                              | (194)        |
| Equity in other comprehensive earnings                               | (194)       |   | 194                          |              |
| Other comprehensive income (loss)                                    | (194)       | (194)   | 194                          | (194)        |
| Total comprehensive income (loss)                                    | (16,887)    | 3,597   | (3,597)                      | (16,887)     |
| Comprehensive income (loss) attributable to non-controlling interest |             |   |                              |              |
| Comprehensive income (loss) attributable to Emdeon Inc.              | \$ (16,887) | \$ 3,597  | \$ (3,597)                   | \$ (16,887)  |

F-51

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|   | <b>Emdeon Inc.</b> | <b>Predecessor<br/>January 1 through November 1, 2011<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|---|--------------------|--|--------------------------------------|---------------------|
| Net income (loss)   | \$ (24,691)        | \$ 21,591  | \$ (16,482)                          | \$ (19,582)         |
| Other comprehensive income (loss):                            |                    |  |                                      |                     |
| Changes in fair value of interest rate swap, net of taxes     |                    |  |                                      |                     |
| Other comprehensive income amortization, net of taxes         |                    | 2,762  |                                      | 2,762               |
| Foreign currency translation adjustment                       |                    | 101  |                                      | 101                 |
| Equity in other comprehensive earnings                        | 2,253              |  | (2,253)                              |                     |
| Other comprehensive income (loss)                             | 2,253              | 2,863  | (2,253)                              | 2,863               |
| Total comprehensive income (loss)                             | (22,438)           | 24,454   | (18,735)                             | (16,719)            |
| Comprehensive income attributable to non-controlling interest |                    |  | 5,719                                | 5,719               |
| Comprehensive income (loss) attributable to Emdeon Inc.       | \$ (22,438)        | \$ 24,454  | \$ (24,454)                          | \$ (22,438)         |

F-52



**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

|   | Emdeon Inc. | Predecessor<br>For the Year Ended December 31, 2010 |                              | Consolidated |
|---|-------------|---|------------------------------|--------------|
|   |             | Guarantor<br>Subsidiaries                           | Consolidating<br>Adjustments |              |
| Net income  | \$ 19,546   | \$ 56,667   | \$ (43,046)                  | \$ 33,167    |
| Other comprehensive income:                                   |             |   |                              |              |
| Changes in fair value of interest rate swap, net of taxes     |             | 5,841   |                              | 5,841        |
| Other comprehensive income amortization, net of taxes         |             | 5,062   |                              | 5,062        |
| Foreign currency translation adjustment                       |             | 91  |                              | 91           |
| Equity in other comprehensive earnings                        | 8,636       |   | (8,636)                      |              |
| Other comprehensive income                                    | 8,636       | 10,994  | (8,636)                      | 10,994       |
| Total comprehensive income                                    | 28,182      | 67,661  | (51,682)                     | 44,161       |
| Comprehensive income attributable to non-controlling interest |             | 15,979  |                              | 15,979       |
| Comprehensive income attributable to Emdeon Inc.              | \$ 28,182   | \$ 51,682   | \$ (51,682)                  | \$ 28,182    |

F-53

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Cash Flows**

|   | Successor<br>For the Year Ended December 31, 2012 |                           |                              | Consolidated     |
|---|---|---------------------------|------------------------------|------------------|
|   | Emdeon Inc.                                       | Guarantor<br>Subsidiaries | Consolidating<br>Adjustments |                  |
| <b>Operating activities</b>   |   |                           |                              |                  |
| Net Income (loss)   | \$ (78,335)                                       | \$ 2,905                  | \$ (2,905)                   | \$ (78,335)      |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                           |                              |                  |
| Depreciation and amortization   | 9,004   | 178,221                   |                              | 187,225          |
| Equity compensation expense   | 27  | 6,815                     |                              | 6,842            |
| Deferred income tax expense (benefit)   | (40,841)  | 2,394                     |                              | (38,447)         |
| Equity in earnings of consolidated subsidiaries                                   | (2,905)   |                           | 2,905                        |                  |
| Accretion expense   | 8,666   |                           |                              | 8,666            |
| Loss on extinguishment of debt  |   | 18,293                    |                              | 18,293           |
| Amortization of debt discount and issuance costs                                  | 2,265   | 7,920                     |                              | 10,185           |
| Other   |   | 2,685                     |                              | 2,685            |
| Changes in operating assets and liabilities:                                      |   |                           |                              |                  |
| Accounts receivable   |   | 1,601                     |                              | 1,601            |
| Prepaid expenses and other  | 1,438   | (13,534)                  |                              | (12,096)         |
| Accounts payable  |   | (2,149)                   |                              | (2,149)          |
| Accrued expenses, deferred revenue, and other liabilities                         | (14,244)  | (10,974)                  |                              | (25,218)         |
| Tax receivable agreement obligations to related parties                           | (334)   |                           |                              | (334)            |
| Due to/from affiliates  | 7,463   | (7,463)                   |                              |                  |
| <b>Net cash provided by (used in) operating activities</b>                        | <b>(107,796)</b>                                  | <b>186,714</b>            |                              | <b>78,918</b>    |
| <b>Investing activities</b>   |   |                           |                              |                  |
| Purchases of property and equipment   |   | (62,054)                  |                              | (62,054)         |
| Payments for acquisitions, net of cash acquired                                   |   | (59,011)                  |                              | (59,011)         |
| Investment in subsidiary  | 112,067   |                           | (112,067)                    |                  |
| <b>Net cash used in investing activities</b>                                      | <b>112,067</b>                                    | <b>(121,065)</b>          | <b>(112,067)</b>             | <b>(121,065)</b> |
| <b>Financing activities</b>   |   |                           |                              |                  |
| Distributions to Emdeon Inc. net  |   | (112,067)                 | 112,067                      |                  |
| Payments on Revolving Facility  |   | (15,000)                  |                              | (15,000)         |
| Payment of debt issue costs   | (34)  | (2,026)                   |                              | (2,060)          |
| Proceeds from incremental term loan   |   | 70,351                    |                              | 70,351           |
| Debt principal and data sublicense obligation payments                            | (4,055)   | (12,558)                  |                              | (16,613)         |
| Other   |   | (693)                     |                              | (693)            |
| <b>Net cash provided by financing activities</b>                                  | <b>(4,089)</b>                                    | <b>(71,993)</b>           | <b>112,067</b>               | <b>35,985</b>    |
| <b>Net decrease in cash and cash equivalents</b>                                  | <b>182</b>  | <b>(6,344)</b>            |                              | <b>(6,162)</b>   |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |        |           |    |           |
|--|--------|-----------|----|-----------|
| Cash and cash equivalents at beginning of period | 572    | 37,353    |    | 37,925    |
| Cash and cash equivalents at end of period       | \$ 754 | \$ 31,009 | \$ | \$ 31,763 |

F-54

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Cash Flows**

|   | Emdeon Inc. | Successor<br>November 2 through December 31, 2011<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---|-------------|--|------------------------------|--------------|
| <b>Operating activities</b>   |             |  |                              |              |
| Net Income (loss)   | \$ (16,693) | \$ 3,791   | \$ (3,791)                   | \$ (16,693)  |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |  |                              |              |
| Depreciation and amortization   | 1,501       | 27,593   |                              | 29,094       |
| Deferred income tax expense (benefit)   | (10,510)    | 4,113  |                              | (6,397)      |
| Equity in earnings of consolidated subsidiaries                                   | (3,791)     |  | 3,791                        |              |
| Accretion expense   | 2,459       |  |                              | 2,459        |
| Amortization of debt discount and issuance costs                                  | 356         | 1,286  |                              | 1,642        |
| Change in fair value of interest rate swap (not subject to hedge accounting)      |             | (2,755)  |                              | (2,755)      |
| Change in contingent consideration  |             | (5,843)  |                              | (5,843)      |
| Other   |             | 489  |                              | 489          |
| Changes in operating assets and liabilities:                                      |             |  |                              |              |
| Accounts receivable   |             | (13,447)   |                              | (13,447)     |
| Prepaid expenses and other  | 3,318       | (192)  |                              | 3,126        |
| Accounts payable  |             | (2,912)  |                              | (2,912)      |
| Accrued expenses, deferred revenue, and other liabilities                         | (13,261)    | (4,283)  |                              | (17,544)     |
| Due to/from affiliates  | (3,769)     | 3,769  |                              |              |
| Net cash provided by (used in) operating activities                               | (40,390)    | 11,609   |                              | (28,781)     |
| <b>Investing activities</b>   |             |  |                              |              |
| Purchases of property and equipment   |             | (8,279)  |                              | (8,279)      |
| Purchases of Emdeon Inc., net of cash acquired                                    | (1,597,220) | (345,998)  |                              | (1,943,218)  |
| Net cash used in investing activities   | (1,597,220) | (354,277)  |                              | (1,951,497)  |
| <b>Financing activities</b>   |             |  |                              |              |
| Proceeds from issuance of stock   | 863,245     |  |                              | 863,245      |
| Proceeds from Term Loan Facility  | 25,332      | 1,159,782  |                              | 1,185,114    |
| Proceeds from Revolving Facility  |             | 25,000   |                              | 25,000       |
| Proceeds from Senior Notes  | 729,375     |  |                              | 729,375      |
| Payments on Revolving Facility  |             | (10,000)   |                              | (10,000)     |
| Payment of debt issue costs   | (5,871)     | (30,030)   |                              | (35,901)     |
| Proceeds from incremental term loan   |             | (942,138)  |                              | (942,138)    |
| Other   | (2,800)     | (68)   |                              | (2,868)      |
| Net cash provided by financing activities   | 1,609,281   | 202,546  |                              | 1,811,827    |

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|  |          |           |           |
|--|----------|-----------|-----------|
| Net decrease in cash and cash equivalents        | (28,329) | (140,122) | (168,451) |
| Cash and cash equivalents at beginning of period | 28,901   | 177,475   | 206,376   |
| Cash and cash equivalents at end of period       | \$ 572   | \$ 37,353 | \$ 37,925 |

F-55

**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Cash Flows**

|  |                    | <b>Predecessor</b>                        |                                      |                     |
|--|--------------------|---|--------------------------------------|---------------------|
|  |                    | <b>January 1 through November 1, 2011</b> |                                      |                     |
|  | <b>Emdeon Inc.</b> | <b>Guarantor<br/>Subsidiaries</b>         | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| <b>Operating activities</b>  |                    |   |                                      |                     |
| Net Income (loss)  | \$ (24,691)        | \$ 21,591                                 | \$ (16,482)                          | \$ (19,582)         |
| provided by operating activities:  |                    |   |                                      |                     |
| Depreciation and amortization  | 3                  | 128,758                                   |                                      | 128,761             |
| Equity compensation expense  | 1,300              | 53,632                                    |                                      | 54,932              |
| Deferred income tax expense (benefit)  | 8,417              | (23,462)                                  |                                      | (15,045)            |
| Equity in earnings of consolidated subsidiaries                              | (16,482)           |   | 16,482                               |                     |
| Amortization of debt discount and issuance costs                             |                    | 11,673                                    |                                      | 11,673              |
| Amortization of discontinued cash flow hedge from other comprehensive loss   |                    | 3,167                                     |                                      | 3,167               |
| Change in fair value of interest rate swap (not subject to hedge accounting) |                    | (7,983)                                   |                                      | (7,983)             |
| Change in contingent consideration   |                    | (8,036)                                   |                                      | (8,036)             |
| Other  |                    | 1,119                                     |                                      | 1,119               |
| Changes in operating assets and liabilities:                                 |                    |   |                                      |                     |
| Accounts receivable  |                    | 660                                       |                                      | 660                 |
| Prepaid expenses and other   | 88                 | 6,550                                     |                                      | 6,638               |
| Accounts payable   |                    | 8,505                                     |                                      | 8,505               |
| Accrued expenses, deferred revenue, and other liabilities                    | 29,263             | 18,350                                    |                                      | 47,613              |
| Tax receivable agreement obligations to related parties                      | (3,519)            |   |                                      | (3,519)             |
| Due to/from affiliates   | (2,667)            | 2,667                                     |                                      |                     |
| Net cash provided (used in) by operating activities                          | (8,288)            | 217,191                                   |                                      | 208,903             |
| <b>Investing activities</b>  |                    |   |                                      |                     |
| Purchases of property and equipment  |                    | (51,902)                                  |                                      | (51,902)            |
| Payments for acquisitions, net of cash acquired                              |                    | (39,422)                                  |                                      | (39,422)            |
| Net cash used in investing activities  |                    | (91,324)                                  |                                      | (91,324)            |
| <b>Financing activities</b>  |                    |   |                                      |                     |
| Debt principal and sublicense obligation payments                            | (3,716)            | (6,412)                                   |                                      | (10,128)            |
| Other  | 925                | (1,188)                                   |                                      | (263)               |
| Net cash used in financing activities  | (2,791)            | (7,600)                                   |                                      | (10,391)            |
| Net increase (decrease) in cash and cash equivalents                         | (11,079)           | 118,267                                   |                                      | 107,188             |
| Cash and cash equivalents at beginning of period                             | 39,980             | 59,208                                    |                                      | 99,188              |
| Cash and cash equivalents at end of period                                   | \$ 28,901          | \$ 177,475                                | \$                                   | \$ 206,376          |



**Table of Contents****Emdeon Inc.****Notes to Consolidated Financial Statements****(In Thousands, Except Per Share, Unit and Per Unit Amounts)****Condensed Consolidating Statement of Cash Flows**

|   | <b>Predecessor</b><br><b>For the Year Ended December 31, 2010</b> |                                   |                                      |                     |
|---|---|-----------------------------------|--------------------------------------|---------------------|
|   | <b>Emdeon Inc.</b>  | <b>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| <b>Operating activities</b>   |   |                                   |                                      |                     |
| Net income  | \$ 19,546   | \$ 56,667                         | \$ (43,046)                          | \$ 33,167           |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                                   |                                      |                     |
| Depreciation and amortization   | 2   | 124,719                           |                                      | 124,721             |
| Equity compensation expense   | 760   | 16,961                            |                                      | 17,721              |
| Deferred income tax expense (benefit)   | 17,213  | (4,977)                           |                                      | 12,236              |
| Equity in earnings of consolidated subsidiaries                                   | (43,046)  |                                   | 43,046                               |                     |
| Amortization of debt discount and issuance costs                                  |   | 12,911                            |                                      | 12,911              |
| Amortization of discontinued cash flow hedge from other comprehensive loss        |   | 5,800                             |                                      | 5,800               |
| Change in fair value of interest rate swap (not subject to hedge accounting)      |   | (3,908)                           |                                      | (3,908)             |
| Change in contingent consideration  |   | (9,284)                           |                                      | (9,284)             |
| Other   |   | 419                               |                                      | 419                 |
| Changes in operating assets and liabilities:                                      |   |                                   |                                      |                     |
| Accounts receivable   |   | (2,429)                           |                                      | (2,429)             |
| Prepaid expenses and other  | (425)   | (12,127)                          |                                      | (12,552)            |
| Accounts payable  |   | (7,499)                           |                                      | (7,499)             |
| Accrued expenses, deferred revenue, and other liabilities                         | (92)  | 543                               |                                      | 451                 |
| Tax receivable agreement obligations to related parties                           | 95  |                                   |                                      | 95                  |
| Due to/from affiliates  | 504   | (504)                             |                                      |                     |
| Net cash provided by (used in) operating activities                               | (5,443)   | 177,292                           |                                      | 171,849             |
| <b>Investing activities</b>   |   |                                   |                                      |                     |
| Purchases of property and equipment   |   | (79,988)                          |                                      | (79,988)            |
| Payments for acquisitions, net of cash acquired                                   |   | (251,464)                         |                                      | (251,464)           |
| Investment in subsidiary  | (80,000)  |                                   | 80,000                               |                     |
| Other   | (3,000)   |                                   |                                      | (3,000)             |
| Net cash provided by (used in) investing activities                               | (83,000)  | (331,452)                         | 80,000                               | (334,452)           |
| <b>Financing activities</b>   |   |                                   |                                      |                     |
| Proceeds from issuance of stock   | 306   |                                   |                                      | 306                 |
| Capital contribution from Emdeon Inc.   |   | 80,000                            | (80,000)                             |                     |
| Proceeds from incremental term loan   |   | 97,982                            |                                      | 97,982              |
| Debt principal and sublicense obligation payments                                 | (3,624)   | (7,799)                           |                                      | (11,423)            |
| Repayment of assumed debt obligations   |   | (35,254)                          |                                      | (35,254)            |
| Other   |   | (1,819)                           |                                      | (1,819)             |



Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 11-K

|   |           |           |          |           |
|---|-----------|-----------|----------|-----------|
| Net cash provided by (used in) financing activities | (3,318)   | 133,110   | (80,000) | 49,792    |
| Net decrease in cash and cash equivalents           | (91,761)  | (21,050)  |          | (112,811) |
| Cash and cash equivalents at beginning of period    | 131,741   | 80,258    |          | 211,999   |
| Cash and cash equivalents at end of period          | \$ 39,980 | \$ 59,208 | \$       | \$ 99,188 |

F-57

**Table of Contents**

**Emdeon Inc.**

**Notes to Consolidated Financial Statements**

**(In Thousands, Except Per Share, Unit and Per Unit Amounts)**

**23. Subsequent Event**

The Company reorganized its reportable segments as payer services, revenue cycle solutions, ambulatory services and pharmacy services effective January 1, 2013.

F-58

**Table of Contents****Emdeon Inc.****Schedule II Valuation and Qualifying Accounts****(in thousands)**

|  | <b>Balance at<br/>Beginning of<br/>Year</b> | <b>Charged to<br/>Costs<br/>and<br/>Expenses</b> | <b>Charged to<br/>Other<br/>Accounts</b> | <b>Write-offs</b> | <b>Balance at<br/>End of Year</b> |
|--|---|--|--|-------------------|-----------------------------------|
| Year ended December 31, 2012   | \$ 1,201                                    | \$ 1,598   | \$ 3,571                                 | \$ (2,785)        | \$ 3,585                          |
| Period from November 2 to December 31, 2011 (Successor) <sup>(1)</sup> | \$  | \$ 349   | \$ 1,460                                 | \$ (608)          | \$ 1,201                          |
| Period from January 1 to November 1, 2011 (Predecessor)                | \$ 5,394                                    | \$ 1,888   | \$                                       | \$ (1,398)        | \$ 5,884                          |
| Year ended December 31, 2010   | \$ 4,433                                    | \$ 2,243   | \$                                       | \$ (1,282)        | \$ 5,394                          |

<sup>(1)</sup> In connection with the Merger, accounts receivable was adjusted to fair value such that the opening allowance for doubtful accounts was \$0 at November 2, 2011.

S-1

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 18, 2013.

**EMDEON INC.**

By: /s/ George I. Lazenby

Name: George I. Lazenby

Title: Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                                      | Title  | Date           |
|--|--|----------------|
| /s/ George I. Lazenby<br>George I. Lazenby     | Chief Executive Officer and Director (Principal Executive Officer)   | March 18, 2013 |
| /s/ Bob A. Newport, Jr.<br>Bob A. Newport, Jr. | Chief Financial Officer (Principal Financial and Accounting Officer) | March 18, 2013 |
| /s/ Neil P. Simpskins<br>Neil P. Simpskins     | Chairman of the Board of Directors                                   | March 18, 2013 |
| /s/ Michael Dal Bello<br>Michael Dal Bello     | Director   | March 18, 2013 |
| /s/ Howard L. Lance<br>Howard L. Lance         | Director   | March 18, 2013 |
| /s/ Philip M. Pead<br>Philip M. Pead           | Director   | March 18, 2013 |
| /s/ Pamela J. Pure<br>Pamela J. Pure           | Director   | March 18, 2013 |
| /s/ Allen R. Thorpe<br>Allen R. Thorpe         | Director   | March 18, 2013 |

**SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED****PURSUANT TO SECTION 15(D) OF THE ACT BY REGISTRANTS WHICH HAVE**

**NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT**

The registrant has not sent and, following the filing of this Annual Report with the SEC, does not intend to send to its security holders an annual report to security holders or proxy materials for the year ended December 31, 2012 or with respect to any annual or other meeting of security holders.

**Table of Contents****Index of Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Agreement and Plan of Merger, dated as of August 3, 2011, by and among Beagle Parent Corp., Beagle Acquisition Corp. and Emdeon Inc. (included as Exhibit 2.1 to the Company's current Report on Form 8-K, filed on August 8, 2011, and incorporated herein by reference).  |
| 3.1                | Second Amended and Restated Certificate of Incorporation of Emdeon Inc. (included as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on November 2, 2011, and incorporated herein by reference).   |
| 3.2                | Second Amended and Restated By-laws of Emdeon Inc. (included as Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on November 2, 2011, and incorporated herein by reference).  |
| 4.1                | 2019 Notes Indenture, dated as of November 2, 2011, among Beagle Acquisition Corp., the guarantors party thereto and Wilmington Trust, National Association, as trustee (included as Exhibit 4.1 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.2                | 2019 Notes Supplemental Indenture, dated as of November 2, 2011, among Emdeon Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee (included as Exhibit 4.2 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.3                | 2019 Notes Supplemental Indenture, dated as of July 10, 2012, between TC3 Health, Inc. and Wilmington Trust, National Association, as trustee (included as Exhibit 4.3 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.4                | 2020 Notes Indenture, dated as of November 2, 2011, among Beagle Acquisition Corp., the guarantors party thereto and Wilmington Trust, National Association, as trustee (included as Exhibit 4.4 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.5                | 2020 Notes Supplemental Indenture, dated as of November 2, 2011, among Emdeon Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee (included as Exhibit 4.5 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.6                | 2020 Notes Supplemental Indenture, dated as of July 10, 2012, between TC3 Health, Inc. and Wilmington Trust, National Association, as trustee (included as Exhibit 4.6 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.7                | 2019 Notes Registration Rights Agreement, dated as of November 2, 2011, among Beagle Acquisition Corp., the guarantors named therein and Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc., as representatives of the purchasers named therein (included as Exhibit 4.7 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference). |

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 4.8                | 2019 Notes Joinder Agreement to Registration Rights Agreement, dated as of November 2, 2011, among Emdeon Inc. and certain additional guarantors named therein (included as Exhibit 4.8 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.9                | 2020 Notes Registration Rights Agreement, dated as of November 2, 2011, among Beagle Acquisition Corp., the guarantors named therein and Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc., as representatives of the purchasers named therein (included as Exhibit 4.9 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).                    |
| 4.10               | Form of 2019 Note (included as Exhibit 4.10 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 4.11               | Form of 2020 Note (included as Exhibit 4.11 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 10.1               | Transaction and Advisory Fee Agreement, dated as of November 2, 2011, among Emdeon Inc., Blackstone Management Partners, L.L.C. and Hellman & Friedman, L.P. (included as Exhibit 10.1 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).   |
| 10.2               | Credit Agreement, dated as of November 2, 2011 (the "Credit Agreement"), among Beagle Intermediate Holding, Inc., Emdeon Inc., the other borrowers party thereto, Bank of America, N.A. as administrative agent, swingline lender and letter of credit issuer thereunder, and the other agents and lenders parties thereto (included as Exhibit 10.2 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference). |
| 10.3               | Amendment No. 1 to the Credit Agreement, dated as of April 24, 2012, among Emdeon Inc., the other borrowers party thereto, Bank of America, N.A., as administrative agent, swingline lender, letter of credit issuer and collateral agent thereunder, and the and the guarantors party thereto (included as Exhibit 10.3 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).                             |
| 10.4               | Security Agreement, dated as of November 2, 2011, among Emdeon Inc., the other borrowers and debtors party thereto, and Bank of America, N.A., as administrative agent (included as Exhibit 10.4 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).   |
| 10.5               | Stockholders' Agreement, dated as of November 2, 2011, by and among Beagle Parent Corp., Beagle Intermediate Holdings, Inc., Beagle Acquisition Corp. and the sponsors, other  |

**Table of Contents**

| Exhibit No. | Description  |
|-------------|--|
|             | investors and managers named therein (included as Exhibit 10.5 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).   |
| 10.6        | Amended and Restated Tax Receivable Agreement (Reorganizations), dated as of November 2, 2011, by and among Emdeon Inc., H&F ITR Holdco, L.P., Beagle Parent LLC and GA-H&F ITR Holdco, L.P. (included as Exhibit 10.6 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference). |
| 10.7        | Amended and Restated Tax Receivable Agreement (Exchanges), dated as of November 2, 2011, by and among Emdeon Inc., H&F ITR Holdco, L.P., Beagle Parent LLC and GA-H&F ITR Holdco, L.P. (included as Exhibit 10.7 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).       |
| 10.8        | Tax Receivable Agreement (Management) by and among Emdeon Inc. and the persons named therein, dated August 17, 2009 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K, filed on August 17, 2009, and incorporated herein by reference).  |
| 10.9        | First Amendment to Tax Receivable Agreement (Management), dated as of November 2, 2011, by and among Emdeon Inc. and the parties named thereto (included as Exhibit 10.9 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).   |
| 10.10       | Employment Agreement, dated September 14, 2012, among George I. Lazenby and Emdeon Business Services LLC (included as Exhibit 10.10 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference).   |
| 10.11       | Employment Agreement, effective as of September 14, 2012, between Gregory T. Stevens and Emdeon Business Services LLC (included as Exhibit 10.12 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference).  |
| 10.12       | Employment Agreement, dated September 14, 2012, among Bob A. Newport and Emdeon Business Services LLC (included as Exhibit 10.13 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference).  |
| 10.13       | Employment Agreement, dated September 14, 2012, among Gary Stuart and Emdeon Business Services LLC (included as Exhibit 10.15 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference).   |
| 10.14       | Employment Agreement, dated September 14, 2012, between Kevin Mahoney and Emdeon Business Services LLC (included as Exhibit 10.16 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference).   |



**Table of Contents**

| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 10.15                  | Employment Agreement, dated September 14, 2012, between Sajid Khan and Emdeon Business Services LLC (included as Exhibit 10.17 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference).          |
| 10.16                  | Employment Agreement, dated September 14, 2012, between T. Ulrich Brechbühl and Emdeon Business Services LLC (included as Exhibit 10.18 to the Company's Registration Statement on Form S-4, as amended (File No. 333-182786), filed on September 17, 2012, and incorporated herein by reference). |
| 10.17                  | Emdeon Management Bonus Program, as revised on February 28, 2012 (included as Exhibit 10.21 to the Company's Registration Statement on Form S-4 (File No. 333-182786), filed on July 20, 2012, and incorporated herein by reference).  |
| 10.18                  | Form of Indemnification Agreement (filed herewith).  |
| 21.1                   | Subsidiaries of Registrant (filed herewith).   |
| 31.1                   | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).  |
| 31.2                   | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).  |
| 32.1                   | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).   |
| 101.INS                | XBRL Instance Document   |
| 101.SCH                | XBRL Taxonomy Extension Schema Document  |
| 101.DEF                | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.CAL                | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB                | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE                | XBRL Taxonomy Extension Presentation Linkbase Document   |

Denotes a management contract or compensatory plan, contract or arrangement.