KPMG

# INTERMEDIX HOLDINGS INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

**INTERMEDIX HOLDINGS INC. AND SUBSIDIARIES**

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**KPMG LLP**
Suite 2000
200 South Biscayne Boulevard
Miami, FL 33131

# Independent Auditors' Report

The Board of Directors and Stockholders
Intermedix Holdings Inc.:

We have audited the accompanying consolidated financial statements of Intermedix Holdings Inc. and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Intermedix Holdings Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Miami, FL
April 29, 2014
Certified Public Accountants

**INTERMEDIX HOLDINGS INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2013 and 2012

(In thousands, except per share data)

| **Assets** | | **2013** | **2012** |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 18,064 | 21,696 |
| Restricted cash | | 875 | 893 |
| Receivables, net | | 35,589 | 34,161 |
| Prepaid expenses and other current assets | | 3,060 | 2,405 |
| Deferred income taxes, net | | 2,091 | 1,791 |
| Total current assets | | 59,679 | 60,946 |
| Property and equipment, net | | 14,824 | 13,890 |
| Goodwill | | 385,650 | 384,266 |
| Intangible assets, net | | 273,564 | 298,589 |
| Debt issuance costs, net | | 8,587 | 10,256 |
| Other assets | | 3,169 | 1,098 |
| Total assets | $ | 745,473 | 769,045 |
| **Liabilities and Stockholders' Equity** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | $ | 7,374 | 6,985 |
| Accrued payroll and related benefits | | 7,377 | 10,607 |
| Collections payable to clients | | 10,783 | 9,928 |
| Deferred revenue | | 10,555 | 10,106 |
| Current portion of senior term loans | | 8,250 | 8,250 |
| Other current liabilities | | 500 | — |
| Total current liabilities | | 44,839 | 45,876 |
| Revolving credit facility | | 3,000 | 10,000 |
| Senior term loans | | 313,500 | 321,750 |
| Subordinated debt | | 112,000 | 112,000 |
| Deferred income taxes, net | | 69,015 | 73,576 |
| Other long-term liabilities | | 1,749 | 1,743 |
| Total liabilities | | 544,103 | 564,945 |
| Commitments and contingencies (note 13) | | | |
| Stockholders' equity: | | | |
| Common stock, $0.01 par value; Authorized, 4,100 shares; issued and outstanding, 3,602 and 3,595 at December 31, 2013 and 2012, respectively | | 36 | 36 |
| Additional paid-in capital | | 308,252 | 303,622 |
| Accumulated deficit | | (107,433) | (100,193) |
| Noncontrolling interest | | 515 | 635 |
| Total stockholders' equity | | 201,370 | 204,100 |
| Total liabilities and stockholders' equity | $ | 745,473 | 769,045 |

See accompanying notes to consolidated financial statements.

**INTERMEDIX HOLDINGS INC. AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2013 and 2012

(In thousands)

| | | 2013 | 2012 |
|---|---|---|---|
| Revenue: | | | |
| Business services revenue | $ | 178,246 | 142,004 |
| Technology revenue | | 36,755 | 18,905 |
| Total revenue | | 215,001 | 160,909 |
| Costs and expenses: | | | |
| Cost of business services revenue | | 96,797 | 67,287 |
| Cost of technology revenue | | 9,400 | 3,651 |
| Selling, general, and administrative expenses | | 43,221 | 33,200 |
| Stock-based compensation expense | | 3,805 | 3,020 |
| Depreciation and amortization expense | | 38,013 | 34,784 |
| Total costs and expenses | | 191,236 | 141,942 |
| Operating income | | 23,765 | 18,967 |
| Interest expense, net | | (34,564) | (27,346) |
| Other loss, net | | (78) | (97) |
| Loss on early extinguishment of debt | | — | (4,903) |
| Loss before income taxes | | (10,877) | (13,379) |
| Income tax benefit | | 3,637 | 4,432 |
| Net loss | $ | (7,240) | (8,947) |

See accompanying notes to consolidated financial statements.

**INTERMEDIX HOLDINGS INC. AND SUBSIDIARIES**

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2013 and 2012

(In thousands)

| | Common stock Number of shares | Common stock Par value | Additional paid-in capital | Accumulated deficit | Noncontrolling interest | Total stockholders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | 3,553 | $ 36 | 296,242 | (18,268) | — | 278,010 |
| Issuance of common stock in connection with acquisition of Anesthesia Revenue Management Inc. | 13 | — | 1,360 | — | — | 1,360 |
| Issuance of common stock in connection with acquisition of Practice Service Resources, LLC | 29 | — | 3,000 | — | — | 3,000 |
| Valuation of noncontrolling interest acquired with acquisition of ESI Acquisition, Inc. | — | — | — | — | 635 | 635 |
| Stock-based compensation expense | — | — | 3,020 | — | — | 3,020 |
| Dividend to stockholders | — | — | — | (72,978) | — | (72,978) |
| Net loss | — | — | — | (8,947) | — | (8,947) |
| Balance at December 31, 2012 | 3,595 | 36 | 303,622 | (100,193) | 635 | 204,100 |
| Issuance of common stock | 7 | — | 825 | — | — | 825 |
| Distribution to noncontrolling interest | — | — | — | — | (30) | (30) |
| Purchase of additional ownership from noncontrolling interest | — | — | — | — | (159) | (159) |
| Income attributable to noncontrolling interest | — | — | — | — | 69 | 69 |
| Stock-based compensation expense | — | — | 3,805 | — | — | 3,805 |
| Net loss | — | — | — | (7,240) | — | (7,240) |
| Balance at December 31, 2013 | 3,602 | $ 36 | 308,252 | (107,433) | 515 | 201,370 |

See accompanying notes to consolidated financial statements.

**INTERMEDIX HOLDINGS INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

(In thousands)

| | | 2013 | 2012 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ | (7,240) | (8,947) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 38,013 | 34,784 |
| Amortization of debt issuance costs | | 1,699 | 1,732 |
| Write-off of unamortized debt issuance costs on early extinguishment of debt | | — | 1,487 |
| Stock-based compensation expense | | 3,805 | 3,020 |
| Deferred income taxes | | (4,745) | (5,059) |
| Income attributable to noncontrolling interest | | 69 | — |
| Other noncash items | | 290 | 327 |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts and notes receivable | | (2,500) | (1,864) |
| Prepaid expenses and other current assets | | (632) | (70) |
| Accounts payable and accrued expenses | | (375) | 3,166 |
| Accrued payroll and related benefits | | (3,230) | 1,805 |
| Deferred revenue | | 449 | (1,863) |
| Collections payable to clients | | 855 | (5,724) |
| Other assets/liabilities | | 492 | (554) |
| Net cash provided by operating activities | | 26,950 | 22,240 |
| Cash flows from investing activities: | | | |
| Deposits | | (347) | 32 |
| Capital expenditures | | (5,305) | (4,035) |
| Capitalized computer software and developed technology | | (8,296) | (5,922) |
| Loan to client | | (2,000) | — |
| Cost of business acquisitions, net of cash acquired | | — | (72,275) |
| Proceeds from sale of assets | | 10 | 151 |
| Net cash used in investing activities | | (15,938) | (82,049) |
| Cash flows from financing activities: | | | |
| Payment of stockholder dividend | | — | (72,978) |
| Borrowings under revolving credit facility | | 2,000 | 21,100 |
| Borrowings under senior term loans | | — | 330,000 |
| Borrowings under subordinated debt facility | | — | 112,000 |
| Repayments under revolving credit facility | | (9,000) | (19,100) |
| Repayment of senior term loans | | (8,250) | (225,897) |
| Repayment of subordinated debt facility | | — | (85,000) |
| Issuance of common stock | | 825 | — |
| Purchase of additional ownership from noncontrolling interest | | (159) | — |
| Distribution to noncontrolling interest | | (30) | — |
| Payment of debt issuance costs | | (30) | (5,257) |
| Net cash (used in) provided by financing activities | | (14,644) | 54,868 |
| Net decrease in cash and cash equivalents | | (3,632) | (4,941) |
| Cash and cash equivalents, beginning of year | | 21,696 | 26,637 |
| Cash and cash equivalents, end of year | $ | 18,064 | 21,696 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ | 31,483 | 25,695 |
| Income taxes, net of refunds | | 1,363 | 1,580 |
| Non-cash investing activities: | | | |
| Purchase accounting adjustments (note 5) | $ | 1,384 | — |

See accompanying notes to consolidated financial statements.

## (1) Description of Business

Intermedix Holdings, Inc. (the Company) provides revenue cycle management (RCM) services, physician management services, and technology-based solutions primarily to the emergency medical industry. The Company provides a comprehensive RCM solution, combining technologies and services to manage the policy administration, clinical documentation, billing, and informatics needs of its clients. Certain RCM contracts also include the provision of electronic patient care reporting (ePCR) systems. The Company's RCM customers include (i) emergency room physicians, (ii) hospital emergency medicine departments, (iii) urgent care providers, (iv) anesthesiology physicians and nurses, (v) emergency medical transportation providers (EMS) – both ground and air, (vi) fire departments, and (vii) 911-emergency first responders. Customers include both governmental municipalities and private-sector service providers located throughout the United States.

The Company also provides physician services support to both individual physicians and established independent physician groups that include assistance in group formation and first contract acquisition such as practice feasibility studies; proposal development and presentation; contract development and negotiations; practice design and organization; and recruiting, scheduling, and credentialing. For emergency physician groups, the Company offers a wide range of resources such as, group governance, Web-based peer review tools, accounting and financial reporting, human resource management, malpractice insurance negotiations, tax planning, and other contractual negotiations.

The Company also provides Web-based information technology solutions primarily to the public health and emergency services markets. The Company's technology consumers include hospitals, EMS providers, fire departments, law enforcement agencies, and state and local departments of health. Technology offerings include (i) real-time communications, (ii) inventory and resource management, (iii) mass multimedia notification, (iv) volunteer registry tracking, (v) patient and evacuee tracking, (vi) fleet management solution for real-time exchange of information between CAD systems and vehicle crews, (vii) collaboration tools that create a common operating picture, enabling emergency managers to make sound decisions and allowing users to manage multiple incidents and daily events, assign, and track missions and tasks, provide situation reports, and manage resources, and (viii) prehospital ePCR systems that seamlessly interface with the Company's RCM billing platform. These solutions integrate a full range of key emergency preparedness and response activities, and scale from daily use to large-scale utilization surges during regional and/or national mass casualty and public health incidents.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Presentation and Principles of Consolidation*

The consolidated financial statements include the consolidated accounts and operations of the Company and its majority-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant intercompany accounts and transactions have been eliminated. As a result of the acquisition of ESI Acquisition, Inc. (ESI) and an additional ownership interest acquired during the current year (note 4), the Company owns a 72% interest in Tucuxi, LLC (Tucuxi), a software development joint venture between ESI and an outside third party. Tucuxi operating results are consolidated with those of the Company, and the noncontrolling interest is included in stockholders' equity in the accompanying consolidated balance sheets.

***(b) Use of Estimates***

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Management utilizes estimates in determining the value of stock-based compensation awards, the useful lives of its long-lived and intangible assets, allowances for doubtful accounts, the impairment of goodwill and other intangible assets, the valuation of deferred tax assets, income tax uncertainties, and purchase price allocations pursuant to business combinations, as well as certain consolidated financial statement disclosures. Actual results could differ from such estimates.

***(c) Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include amounts billed and collected on behalf of clients (item (l) below for discussion of related liability).

***(d) Receivables, Net***

**Trade Receivables**

Trade receivables primarily consist of amounts due to the Company pursuant to service, subscription, and/or license contracts with its customers. Also included in trade receivables is the current portion of notes receivables due from certain customers, which totaled $3.7 million and $3.3 million, respectively, as of December 31, 2013 and 2012. The carrying amount of trade receivables approximates fair value given the short maturities of such receivables.

**Allowances for Refunds and Doubtful Accounts**

Reserves related to trade receivable collectibility are recorded when specific accounts are identified as being at risk based on review of past-due accounts and the related facts and circumstances. As of December 31, 2013 and 2012, the allowance for refunds and doubtful accounts totaled $0.9 million and $0.7 million, respectively, in the accompanying consolidated balance sheets.

***(e) Prepaid Expenses and Other Current Assets***

“Prepaid expenses and other current assets” consist of amounts paid in advance for insurance, maintenance contracts, and other customary and routine items required for the operation of the business.

***(f) Property and Equipment, Net***

“Property and equipment, net” is stated at cost less accumulated depreciation and amortization. Depreciation and amortization on property and equipment are calculated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the underlying lease term or useful life of the asset. Maintenance and repairs are charged directly to expense as incurred, while betterments and renewals are generally capitalized as property, equipment, and leasehold improvements. When an item is retired or otherwise disposed of, the cost and applicable accumulated depreciation and amortization are removed and the resulting gain or loss is recognized.

### *(g) Computer Software and Technology Development Costs*

Certain computer software and technology development costs are capitalized in "Intangible assets, net" in the accompanying consolidated balance sheets. In accordance with Accounting Standard Codification (ASC) Topic 350-40, *Internal-Use Software* (ASC Topic 350-40), the Company capitalizes costs incurred during the application development stage related to its proprietary software platforms and to its enterprise cloud computing application services, as well as for modifications to existing computer software that result in additional functionality. Costs incurred for the development of internal-use software largely consist of payroll and payroll-related costs for employees and consultants who are directly associated with and who devote time to the internal-use computer software projects. Such costs are expensed until (i) the preliminary project stage is completed, (ii) management has authorized and committed funding for the project, and (iii) it is probable that the project will be completed and the software will be used to perform the function intended, at which time, in accordance with ASC Topic 350-40, any additional software development costs are capitalized.

Amortization of internally developed computer software, which is included in "Depreciation and amortization expense," begins when development is substantially complete and the computer software is ready for its intended use. These costs are amortized over the period in which the asset is expected to contribute directly or indirectly to future cash flow. The Company generally amortizes internally developed software on a straight-line basis over a five-year period and periodically reassesses the estimated useful lives of its internally developed software in consideration of, among other factors, the effects of (i) obsolescence, (ii) technology, (iii) competition, and (iv) other economic factors.

To a much lesser extent, the Company capitalizes certain development costs related to software licenses sold to customers (note 2(m)) in accordance with ASC Topic 985-20, *Costs of Software to Be Sold, Leased, or Marketed*, in which capitalization begins upon the establishment of technological feasibility.

The Company assesses the recoverability of computer software development costs by comparing the carrying amount to the fair value whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the fair value. In determining fair value of internally developed computer software, the Company considers whether (i) it is expected to provide continued substantive service potential, (ii) significant changes in the extent or manner in which the software is used or is expected to be used, (iii) it is or is expected to undergo a significant change, or (iv) projected development or modification costs significantly exceed original estimates.

### *(h) Goodwill and Intangible Assets*

Goodwill is recorded in accordance with ASC Topic 805, when the consideration paid for an acquisition exceeds the fair value of identifiable net tangible and identifiable intangible assets acquired. In accordance with ASC Topic 350, *Intangibles—Goodwill and Other* (ASC Topic 350), goodwill and other indefinite-lived intangible assets are reviewed for impairment at least annually. The Company has elected to perform its annual impairment testing as of October 31 of each year and as required should any triggering events occur indicating a potential for impairment.

Goodwill impairment is determined using a two-step process. The first step of the impairment test is used to identify potential impairment by comparing the fair value of a reporting unit to the book value, including goodwill. If the fair value of a reporting unit exceeds its book value, goodwill of the reporting unit is not considered impaired, and the second step of the measurement of goodwill impairment is not required. If the book value of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss, if any.

The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the book value of the goodwill. The reporting unit's implied fair value of goodwill is determined by allocating the fair value to the reporting unit's assets other than goodwill. The excess of any residual fair value after this allocation is used as the implied fair value of the reporting unit goodwill. If the book value of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

***(i) Impairment of Long-lived Assets***

The Company reviews long-lived assets and intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or group of assets to future net cash flows expected to be generated by the asset or group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

***(j) Debt Issuance Costs, Net***

The Company capitalizes and amortizes costs incurred to obtain financing over the term of the underlying obligation using the effective-interest method. The amortization of debt financing fees is included in "Interest expense, net" in the accompanying consolidated statements of operations.

***(k) Other Assets***

Other assets consist of the long-term portion of other notes receivable, cost-basis investments, and deposits.

***(l) Collections Payable to Clients***

Collections payable to clients represents amounts collected on behalf of clients that have not yet been remitted to clients. Collection held for customers is included in "Cash and cash equivalents" in the accompanying consolidated balance sheets.

***(m) Revenue Recognition***

The Company recognizes nonsoftware related revenue in accordance with the provisions of ASC 605, *Revenue Recognition,* and software-related revenue in accordance with ASC 985-605, *Software—Revenue Recognition.* In general, revenue is recognized when all of the following criteria have been met:(i) when there is persuasive evidence of an arrangement, (ii) the service or product has been provided to the customer, (iii) the collection of the fees is reasonably assured, and (iv) the amount of fees is fixed or determinable.

The Company's revenue is divided into two major components:

Business Services Revenue – Business services revenue represents fees earned from the Company's RCM businesses for account billing and clinical systems use, and from its physician support services, including recruiting, scheduling, credentialing, accounting, financial reporting, human resource management, insurance negotiations, planning, and other contractual negotiations.

Technology Revenue – Technology revenue includes: (i) subscription revenue for fees earned from the Company's software-as-a-service (SaaS) offerings, whereby customers are granted access to the Company's Internet-based software solutions, (ii) sales of software licensing rights to end-users and value added resellers or VARs; (iii) professional services, including implementation, training, and consulting services and (iv) software support and maintenance.

The Company recognizes revenue for each of its major revenue components as follows:

**Business Services Revenue**

Business Services Revenue is typically charged to the customer based on a percentage of total collections or on a per incident fee. Fees based on a percentage of collections are not fixed or determinable until collections are realized; thus, in accordance with ASC Topic 605, *Revenue Recognition* (ASC 605), revenue is recorded when such collections are made. Fees on a per incident basis are recognized in the month in which the incident occurs.

**Technology Revenue**

***Subscription and Other Revenue***

Under the Company's SaaS-based product offerings, customers do not have the right to take possession of the software, and in accordance with ASC Topic 985, *Software* (ASC 985), these arrangements are considered service contracts, which are outside the scope of ASC 985.

Subscription and support services revenue constitutes a majority of the technology revenue and is recognized ratably over the contract terms in accordance with ASC 605. Implementation and training revenue, when sold with SaaS offerings, is accounted for separately when there is objective evidence of the fair value of each deliverable. Implementation and training revenue is recognized ratably over the longer of the contract life or the estimated expected customer life, which is estimated to be five years.

Hosting services revenue represents fees charged to manage and host customers' hardware and software solutions at the Company's data centers. Hosting services revenue is recognized ratably over the contract term in accordance with ASC 605.

Hardware revenue, which represents the sale of mobile devices that are utilized in conjunction with the Company's SaaS-based solutions, is recognized upon delivery to the customer when all of the other revenue recognition criteria are met. Support services that are sold together with hardware devices are accounted for separately, when there is objective evidence of the fair value of each deliverable, and are recognized ratably over the service term.

***Software Licensing Arrangements Involving Multiple Elements***

Some of the Company's technology offerings are sold under licensing arrangements and may contain multiple elements of the deliverables noted above. Revenue earned on software arrangements involving multiple elements is allocated to each element based on the relative fair values of those elements. The fair value of an element is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE to either the selling price charged when the same element is sold separately or the selling price established by management having the relevant authority to do so. The selling price for each element is set based on an established and maintained price list for each customer group. In determining selling prices, the Company considers; (i) competitor pricing, (ii) supply and demand of professional services staff, (iii) overall economic conditions, and (iv) cost to provide the software system element. Prices and/or VSOE are updated and reviewed annually depending on the nature of the product or service.

Provided the fees are fixed or determinable and collection is considered probable, revenue from licensing rights and related software sales is generally recognized upon physical or electronic shipment and transfer of title.

Revenue from implementation, training, and other professional services is recognized as the corresponding services are performed, or in certain instances upon acceptance of the services by the customer. Support and maintenance revenue is recognized ratably over the contractual maintenance period, typically 12 months.

Amounts that have been invoiced for technology revenue are recorded in accounts receivable and in deferred revenue or revenue, depending on the whether the revenue recognition criteria have been met.

***(n) Cost of Revenues***

Cost of business services revenue primarily includes direct production costs such as labor, patient statement printing and mailings, telecommunications, facility, and e-commerce costs. Cost of technology revenue includes labor, hardware, and data center costs.

***(o) Employee Stock-based Compensation***

Compensation expense for all stock-based compensation awards granted is based on the grant-date fair value estimated in accordance with the provisions of ASC Topic 718, *Compensation—Stock Compensation* (ASC Topic 718). The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The Company's options vest over terms of five years. As stock-based compensation expense recognized is based on awards ultimately expected to vest, such expense is generally reduced for estimated forfeitures. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company estimates the fair value of stock-based compensation awards on the date of grant using the Black-Scholes-Merton (BSM) option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and are freely transferable. The BSM option pricing model considers, among other factors, the expected life of the award and the expected volatility of the Company's stock price.

### *(p) Income Taxes*

Income taxes are accounted for under the asset-and-liability method in accordance with ASC Topic 740, *Income Taxes* (ASC Topic 740). Deferred tax assets and liabilities are recognized for (i) the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (ii) operating loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net deferred tax assets are recorded to the extent that these assets will "more likely than not" be realized. In making such determination, all available positive and negative evidence is considered, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies, and results of recent financial operations. It was determined that a valuation allowance was not necessary as of December 31, 2013 and 2012.

ASC Topic 740 prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken in a tax return, if that position is "more likely than not" of being sustained upon examination by the relevant taxing authority, based on the technical merits of the position. The tax benefits recognized in the Company's consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There was no liability for unrecognized tax benefits as of December 31, 2013 and 2012.

### *(q) Concentration of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company attempts to limit its credit risk by maintaining deposit relationships with high-credit-quality financial institutions. The Company also sweeps most of its excess cash daily into overnight government-secured funds.

No individual account receivable accounted for more than 10% of consolidated accounts receivable as of December 31, 2013 and 2012 and no individual customer accounted for more than 10% of consolidated revenue for the years ended December 31, 2013 and 2012.

## (3) Restricted Cash

As of December 31, 2013 and 2012, respectively, the Company had $0.9 million of restricted cash, representing collateral to secure a letter of credit and four performance bonds aggregating $0.4 million. The letter of credit is secured by a collateralized bank account and the performance bonds are secured by six-month auto renewable Certificates of Deposit (CD's). Pursuant to the contractual terms to provide RCM and/or technology services to certain clients, the Company was required to furnish such letter of credit or CD's to assure its performance under the respective contracts.

## (4) 2012 Acquisitions

During 2012, the Company entered into four separate transactions, as described below, wherein it acquired a business or substantially all the assets of a business. The transactions were funded with new debt and equity issuances, and internally generated cash. The allocation of the purchase price of the assets acquired and liabilities assumed for each transaction is reflected in the table below under "Purchase Price Allocation of 2012 Acquisitions." The transactions resulted in aggregate goodwill of $30.8 million, of which $20.5 million is deductible for tax purposes. In general, goodwill reflects the value of the Company's expectations for future growth opportunities resulting from expansion into a new RCM line of business, and the unique synergies created by leveraging its current product offerings with those of the acquired companies, to broaden both its existing customer base and to differentiate itself with new sales opportunities. Specific discussion with respect to the factors giving rise to goodwill is included below by transaction.

### *(a) Ascend Billing Services, LLC (Ascend)*

Pursuant to an Asset Purchase Agreement (APA) dated July 6, 2012, Medical Consultants, Inc. (MCI), a wholly owned subsidiary of the Company, purchased substantially all of the net assets of Ascend. The purchase price of $2.5 million was funded entirely by internal cash.

The APA also provided for a Contingent Purchase Price Adjustment (CPPA) to be made within 48 months of the closing date in the event that (i) Ascend's major customer terminates its billing agreement with Ascend for convenience or (ii) there is a change in control of such major customer and the billing agreement is not assumed by the successor. The CPPA is calculated as the product of $2.5 million and a fraction, the numerator of which is 48 minus the number of elapsed months since the closing date and the denominator of which is 48 months. As of December 31, 2013, the Company still provides services to this customer, and pursuant to guidance provided in ASC 805, the Company has assigned no value to the CPPA.

Approximately $0.1 million in transaction costs were incurred in connection with the acquisition and are included in "Selling, general, and administrative expense" in the accompanying consolidated statements of operations of the Company.

Ascend is engaged in the business of providing billing, accounts receivable management, medical coding, and practice management services to emergency medical service providers, emergency department physicians, staffing groups, hospitals, and similar persons.

As a result of this acquisition, the Company recorded goodwill of $1.2 million, which reflects the value that the acquired contracts have on strengthening the Company's market position.

***(b) South Oakland Billing, Inc. (dba Anesthesia Revenue Management, Inc.) (ARM)***

Pursuant to an APA dated November 30, 2012, Intermedix ARM, LLC, a newly formed, wholly owned subsidiary of the Company, purchased substantially all of the net assets of ARM. The purchase price of $13.6 million included (i) $10.2 million paid in cash to seller at closing, (ii) the issuance of $1.4 million in the Company's common stock in exchange for certain ARM shares owned by ARM management, and (iii) $2.0 million that is being held in escrow by a third-party agent to be released on or about the 18 month anniversary of the close.

Funding for the acquisition of ARM consisted of $10.0 million in revolver borrowings available under the Company's then existing credit facility and the remainder from internally generated cash. Approximately $0.1 million in transaction costs were incurred in connection with the acquisition.

The APA also provides for a CPPA to be made after 18 months from the closing date in the event that annualized revenue from ARM's customers is less than $7.1 million. The CPPA is calculated as the lesser of the (a) the purchase price minus $12.5 million or (b) 1.9 times the difference between $7.4 million and the actual annualized revenue from ARM clients. As a result of a major client loss during 2013, it is more likely than not that ARM will fall short of the Annualized Revenue threshold, and pursuant to the guidance in ASC 805, the Company has assigned a value of $1.5 million to the CPPA. Such amount is included in "Receivables, net" on the December 31, 2013 balance sheet.

In addition, the APA provided for additional purchase price to be paid for any federal tax benefits, between (x) seller's and the owners' aggregate applicable state income taxes actually paid for the tax year in which the closing occurred and (y) the amount that such taxes would have been if, instead of purchasing the assets of seller, buyer had purchased all the issued and outstanding shares of seller's stock from the owners for the same consideration (the difference between the foregoing (x) and (y) referred to as the Reimbursement Amount). During 2013, the Company paid to sellers an additional $0.5 million in purchase price for the Reimbursement Amount.

ARM is engaged in the business of providing billing, accounts receivable management, medical coding, and practice management services to anesthesiology medical service providers, physicians, staffing groups, hospitals, and similar persons.

As a result of this acquisition, the Company recorded goodwill of $5.3 million, which reflects (i) the Company's entry into the anesthesiology line of business, a natural extension of the Company's core capabilities, (ii) opportunity to leverage the Company's billing platform and create synergies, and (iii) the numerous opportunities to enhance customer satisfaction and cost efficiencies through the integration of the Company's respective best practices, technologies, and resources.



(Continued)

### *(c) Practice Service Resources, LLC (PSR)*

On December 27, 2012, Advanced Data Processing, Inc. (ADPI), a wholly owned subsidiary of the Company, entered into an Agreement and Plan of Merger (the PSR Merger Agreement) with PSR and PSR Merger Sub, LLC (PSR Merger Sub), a Texas limited liability company and a wholly owned subsidiary of ADPI, established as an acquisition vehicle for the purpose of acquiring PSR. Following the consummation of the PSR Merger, PSR Merger Sub was merged with and into PSR with it surviving as a wholly owned subsidiary of ADPI.

In accordance with the terms of the PSR Merger Agreement, ADPI purchased 100% of the issued and outstanding member units of PSR. The purchase price of $46.5 million included (i) $38.9 million paid in cash to seller at closing, (ii) the issuance of $3.0 million in the Company's common stock in exchange for certain PSR units owned by PSR management, (iii) $3.5 million that is being held in escrow by a third-party agent to be released 50% on or about the 18-month anniversary of the close and the remainder to be released on the third anniversary of closing, (iv) $0.8 million of PSR internal cash, and (v) $0.3 million excess purchase price consideration from a true up of "working capital" that was paid within 120 days after closing. As of December 31, 2013, the Company had a pending indemnity claim against the escrowed funds in the amount of $0.1 million.

As the Company finalized its due diligence during the measurement period, it became aware of customer receivables that had been accrued prior to the acquisition date that were contingent on PSR meeting performance targets tied to services in future periods. Because the recognition criteria for revenues resulting from achieving these targets had not been met as of the acquisition date, the Company adjusted the original amount of receivables recorded upon purchase by approximately $2.4 million. This has been reflected as a reduction in receivables, net, with a corresponding increase in goodwill, in the accompanying consolidated balance sheets as of December 31, 2013.

To consummate this acquisition and the acquisition of ESI discussed below, the Company refinanced its existing Senior and Subordinated Debt Credit Facilities that, among other things, provide an additional $105 million in new borrowings, which along with internal cash was used to fund the PSR and ESI acquisitions (note) and a stockholder distribution of $73.0 million (note). Approximately $0.4 million in transaction costs were incurred in connection with the acquisition.

PSR provides physician services support to both individual physicians and established independent physician groups that include assistance in group formation and first contract acquisition such as practice feasibility studies; proposal development and presentation; contract development and negotiations; practice design and organization; and recruiting, scheduling, and credentialing. For emergency physician groups, PSR offers a wide range of resources such as group governance, Web-based peer review tools, accounting and financial reporting, human resource management, malpractice insurance negotiations, tax planning, and other contractual negotiations.

As a result of the merger, PSR recorded goodwill of $15.3 million, which reflects the value of the Company's expectations that the acquisition of PSR would (i) strengthen the Company stature as industry leader in emergency medicine, (ii) provide new service offering to the Company's existing clients, (iii) provide billing opportunities with many PSR clients that use competitor services, (iv) create new and unique skill set to attack the market, (v) provide the Company with large growth opportunities outside of emergency medicine, and (vi) provide incremental experienced management resources.

### *(d) ESI Acquisition, Inc. (ESI)*

Pursuant to a Stock Purchase Agreement dated December 27, 2012, EMSystems, LLC (Systems), a wholly owned subsidiary of the Company, purchased all of the issued and outstanding shares of common stock of ESI including its majority-owned subsidiary, Tucuxi. The purchase price of $17.4 million included (i) $15.5 million paid in cash to seller at closing, (ii) $1.0 million that was placed in escrow with a third-party agent, 50% of which was released on or about December 27, 2013 and the remainder is subject to be released on the second anniversary of the closing, and (iii) $0.9 million excess purchase price consideration from a true up of "working capital" that was paid subsequent to acquisition date. As noted above in the PSR acquisition discussion, to consummate this acquisition, the Company obtained additional debt funding by refinancing its existing Senior and Subordinated Debt Credit Facilities. Approximately $0.3 million in transaction costs were incurred in connection with the acquisition.

In addition, in July 2013, the Company acquired an additional 10% interest in Tucuxi for $0.2 million thereby increasing its ownership stake from 62% to 72%. The price paid for each Tucuxi share was the same price as paid at the original acquisition date. The additional amount paid reduced the amount of noncontrolling interest on the consolidated balance sheet as of December 31, 2013.

ESI is a leader in crisis-information management solutions. ESI pioneered the concept of the virtual emergency operations center with WebEOC®, the world's first Web-enabled Crisis Information Management Software (CIMS). Through its innovative systems, ESI provides access to real-time information and communication between crisis response teams and decision makers. WebEOC® provides situational awareness and a common operating picture (COP) during a crisis event or day-to-day operations. ESI offers a total solutions package that ranges from initial design and installation through training, implementation, and ongoing support. Today, WebEOC® is used by departments and agencies within the executive and legislative branches of the U.S. federal government, state-level agencies in 40 states/districts/U.S. territories, and thousands of first responders and emergency managers in counties and cities. WebEOC® has also been adopted by hospitals, airlines, utilities, universities, government agencies, and corporations around the world.

As a result of this acquisition, the Company recorded goodwill of $9.1 million, which reflects (i) the Company's expanded presence in providing solutions to America's safety net providers, (ii) cost synergies expected to be realized from consolidation of offices, client relationship, and support teams and product offering, (iii) synergies expected in cross-selling all companies product suites, and (iv) strong strategic fit into long-term technology model and opportunity to expand footprint.

### *(e) Determination of Estimated Fair Values of Assets Acquired and Liabilities Assumed*

In accordance with guidance provided in ASC Topic 805, the Company was required to estimate and record the fair value of the assets acquired and liabilities assumed in the transactions described above. Methodologies and assumptions used in valuation of significant accounts acquired are described below:

### *(f) Current Assets*

Current assets and primarily trade receivables are recorded at their carrying amount, which approximates fair value given the short maturity of these balances. The fair value of receivables acquired includes management's estimate of the cash flows not expected to be collected.

### *(g) Property and Equipment*

In the estimation of the fair value of property and equipment, the Company used varying methods and procedures; however, those procedures followed the same basic principles of the cost approach, (i) a current cost to replace the asset new is calculated, and then (ii) the estimated replacement cost is reduced to reflect the applicable decline in value resulting from physical deterioration, functional obsolescence wherein and/or economic obsolescence.

### *(h) Intangible Assets Other Than Goodwill*

**Customer-related Intangible Assets**

The fair value of customer relationships was established based on an income approach using the excess earnings method, by comparing the present value of the expected benefits from ownership of the subject intangible asset to the required return on the investment in the assets related to realizing the benefits.

**Technology-related Intangible Assets**

Technology fair values were established based on an income approach using the relief from royalty method, which recognizes that because the Company owns the technology, rather than licensing it, the Company does not have to pay a royalty for its use. The fair value of the technology is determined based on the present value of the after-tax cost savings.

**Marketing-related Intangible Assets**

Trademarks – The fair value of trademarks was established based on an income approach using the relief from royalty method, which recognizes that a trademark has a fair value equal to the present value of the royalty income attributable to it. The royalty income attributable to a trademark represents the hypothetical cost savings that are derived from owning the trademark instead of paying royalties to license the trademark from another owner.

Noncompetition Agreements – The fair value of noncompetition agreements was established based on an income approach, using a differential methodology, since their value is representative of the current and future revenue and profit erosion projection they provide. A differential was calculated whereby the profit of the business is projected under two scenarios: one "with" and one "without" the noncompetition agreement in place. The present value of the profits is determined in each scenario, and the differential between the two amounts is deemed the fair value of the noncompetition agreement.

All of the acquired intangibles, other than goodwill, aggregating $44.0 million are amortizable. See note 7 for further disclosures.

### Deferred Revenue

Deferred revenue consists of service contracts wherein the Company has a legal obligation to perform services and expects to incur future costs to fulfill those obligations. Estimates related to deferred revenue were based on the direct cost of fulfilling these obligations plus a normal profit margin.

### Purchase Price Allocation of 2012 Acquisitions

The following tables summarize the consideration paid along with the allocations of the purchase price paid by the Company to acquire the businesses or assets in the four transactions described above (in thousands):

| | | Ascend | ARM | PSR | ESI | Total |
|---|---|---|---|---|---|---|
| Consideration: | | | | | | |
| Cash (net of cash acquired of $1,180 and $2,567 for PSR and ESI, respectively) | $ | 2,500 | 12,711 | 42,418 | 14,866 | 72,495 |
| Common stock | | — | 1,360 | 3,000 | — | 4,360 |
| Fair value of total consideration transferred | | 2,500 | 14,071 | 45,418 | 14,866 | 76,855 |
| Fair value of contingent purchase price adjustment | | — | (1,571) | — | — | (1,571) |
| Fair value of pending indemnity claim | | — | — | (71) | — | (71) |
| Fair value of noncontrolling interest | | — | — | — | 635 | 635 |
| Total purchase price allocation | $ | 2,500 | 12,500 | 45,347 | 15,501 | 75,848 |

| | | Ascend | ARM | PSR | ESI | Total |
|---|---|---|---|---|---|---|
| Recognized amounts of identifiable assets acquired and liabilities assumed: | | | | | | |
| Current assets | $ | 161 | 885 | 6,149 | 3,938 | 11,133 |
| Property and equipment | | — | 453 | 441 | 690 | 1,584 |
| Other intangible assets | | 1,150 | 6,150 | 25,874 | 10,790 | 43,964 |
| Other assets | | — | 7 | 103 | — | 110 |
| Liabilities (including deferred revenue totaling $5,081 for ESI) | | (29) | (326) | (2,382) | (5,612) | (8,349) |
| Deferred income taxes | | — | — | — | (3,448) | (3,448) |
| Total identifiable net assets acquired | | 1,282 | 7,169 | 30,185 | 6,358 | 44,994 |
| Goodwill | | 1,218 | 5,331 | 15,162 | 9,143 | 30,854 |
| | $ | 2,500 | 12,500 | 45,347 | 15,501 | 75,848 |
| Other intangible assets included above consist of the following by major intangible asset class: | | | | | | |
| Customer-related | $ | 1,140 | 6,000 | 10,400 | 7,300 | 24,840 |
| Technology-related | | — | 100 | 12,514 | 2,780 | 15,394 |
| Marketing-related | | 10 | 50 | 2,960 | 710 | 3,730 |
| | $ | 1,150 | 6,150 | 25,874 | 10,790 | 43,964 |

## (5) Goodwill

Goodwill, which amounted to $385.7 million and $384.3 million at December 31, 2013 and 2012, respectively, represents the excess of purchase price over net assets acquired. During the year ended December 31, 2013, the Company's goodwill was affected by certain adjustments related to prior year acquisitions based on facts and circumstances that arose within the measurement period.

The change in carrying amount of goodwill for the year ended December 31, 2013 is as follows:

| | | |
|---|---|---|
| Balance at December 31, 2012 | $ | 384,266 |
| Purchase accounting adjustments: | | |
| ARM – purchase price adjustments (note 4) | | (1,571) |
| PSR – receivables adjustment (note 4) | | 2,371 |
| Other | | 584 |
| Balance at December 31, 2013 | $ | 385,650 |

ASC Topic 350 requires an impairment test be performed at least annually on the carrying value of goodwill at the reporting unit level. The Company impairment testing indicated that the estimated fair value of goodwill exceeds its carrying value at each of the Company's five and three reporting units for 2013 and 2012, respectively.

## (6) Property and Equipment, Net

Property and equipment, at cost and respective estimated useful lives, are classified as follows at December 31, 2013 and 2012 (in thousands):

| | | 2013 | 2012 | |
|---|---|---|---|---|
| Land | $ | 640 | 640 | |
| Building | | 4,672 | 4,672 | 27 years |
| Equipment | | 10,120 | 7,439 | 3 years |
| Clinical field data systems | | 7,162 | 5,937 | 3 years |
| Furniture and fixtures | | 1,518 | 1,203 | 5–7 years |
| Leasehold improvements | | 2,033 | 1,468 | (a) |
| Total | | 26,145 | 21,359 | |
| Less accumulated depreciation and amortization | | (11,321) | (7,469) | |
| | $ | 14,824 | 13,890 | |

(a) The lesser of the lease term or the economic useful life of the improvements.

Depreciation and amortization expense related to property and equipment was $4.5 million and $3.7 million for the years ended December 31, 2013 and 2012, respectively.

**(7) Intangible Assets, Net**

Intangible assets and accumulated amortization at December 31, 2013 and 2012, and the remaining weighted average useful life at December 31, 2013 consisted of the following (dollars in thousands):

| | Weighted average useful life (in years) | | 2013 | 2012 |
|---|---|---|---|---|
| Customer-related, net of accumulated amortization of $61,946 and $42,811 as of December 31, 2013 and 2012, respectively | 12 | $ | 228,664 | 247,784 |
| Technology-related, net of accumulated amortization of $36,729 and $25,601 as of December 31, 2013 and 2012, respectively | 7 | | 38,434 | 41,020 |
| Marketing-related, net of accumulated amortization of $5,380 and $1,950 as of December 31, 2013 and 2012, respectively | 5 | | 6,466 | 9,785 |
| | | $ | 273,564 | 298,589 |

All intangible assets are subject to amortization and are amortized over their useful lives using the straight line method. Amortization expense related to intangible assets was $33.6 million and $31.1 million for 2013 and 2012, respectively. Estimated amortization expense is as follows (in thousands) for the year ending December 31:

| | | |
|---|---|---|
| 2014 | $ | 32,996 |
| 2015 | | 31,752 |
| 2016 | | 29,300 |
| 2017 | | 27,109 |
| 2018 | | 23,848 |
| Thereafter | | 128,559 |
| | $ | 273,564 |

## (8) Long-term Debt

Long-term debt consisted of the following at December 31, 2013 and 2012 (in thousands):

| | | 2013 | 2012 |
|---|---|---|---|
| Revolving credit facility | $ | 3,000 | 10,000 |
| Senior credit facility – term loans | | 321,750 | 330,000 |
| Subordinated loans | | 112,000 | 112,000 |
| Total debt | | 436,750 | 452,000 |
| Less amounts payable in less than one year | | (8,250) | (8,250) |
| | $ | 428,500 | 443,750 |

Except as provided for below, aggregate annual maturities of long-term debt were as follows at December 31, 2013 (in thousands):

| | | |
|---|---|---|
| Year ending December 31: | | |
| 2014 | $ | 8,250 |
| 2015 | | 8,250 |
| 2016 | | 8,250 |
| 2017 | | 8,250 |
| 2018 | | 291,750 |
| Thereafter | | 112,000 |
| | $ | 436,750 |

### Senior Financing

***Overview***

On August 23, 2010, in connection with the acquisition of the Company by a private equity investor, the Company entered into a $235.0 million Credit Agreement that provided term loans in the amount of $194.5 million and a revolving credit facility of $40 million (the Senior Credit Facility) and an $85.0 million Senior Subordinated Loan Agreement (the Subordinated Loan Agreement), which collectively are herein referred to as the Senior Financing.

In August 2011, the Company amended the Senior Credit Facility to increase the term loan portion of that facility from $194.5 million to $228.0 million.

On December 27, 2012, the Company refinanced its Senior Credit Facility to increase the term loan facility from $228.0 million to $330.0 million and the revolving credit facility from $40 million to $50 million. The proceeds of the incremental term loan borrowings were used to fund a portion of the PSR and ESI acquisitions (note 4), and a stockholder dividend in the amount of $73.0 million. The refinancing, among other things, increased pricing under the Senior Credit Facility and provided greater latitude in the Company's financial covenants. Based on the guidance provided in ASC Topic 470-50, the Company did not record a loss on extinguishment of debt related to the write-off of financing fees deferred in connection with the previous facilities, but rather will amortize such fees as an adjustment of interest expense over the term of the refinanced Senior Credit Facility. Approximately $2.7 million of incremental fees were incurred with respect to the execution of the December 2012 refinancing.

***Senior Credit Facility***

The Senior Credit Facility consists of (i) a $330.0 million term loan facility (the Term Loans) maturing December 27, 2018 of which $321.8 million and $330.0 million was outstanding at December 31, 2013 and 2012, respectively, (ii) a $50.0 million revolving credit facility (the Revolving Credit Facility), which expires December 27, 2018 of which $3.0 million and $10.0 million was outstanding at December 31, 2013 and 2012, respectively.

The Senior Credit Facility also provides a swing line loan commitment (the Swing Line Facility), which expires December 27, 2018, under which there were no borrowings outstanding at December 31, 2013 and 2012, and provisions for the issuance of commercial and standby letters of credit (LOCs) on behalf of the Company, none of which were issued or outstanding at December 31, 2013 and 2012. Borrowings under the Swing Line Facility, together with outstanding LOCs, reduce available borrowings under the Revolving Credit Facility, and each are subject to a $15.0 million sublimit. All borrowings outstanding under the Swing Line Facility or amounts drawn pursuant to LOCs are to be repaid no later than five business days prior to the expiration of the Revolving Credit Facility.

Borrowings under the Senior Credit Facility are secured by substantially all of the assets of the Company and its subsidiaries including all of the Company’s outstanding capital stock. The Senior Credit Facility limits the Company’s ability to dispose of assets, incur additional indebtedness or contingent obligations, prepay the subordinated debt, engage in mergers or consolidations, suffer additional liens, or engage in certain transactions with affiliates. The Senior Credit Facility contains various customary covenants requiring that the Company comply with certain specified financial ratios and tests.

***Interest and Other Fees***

Borrowings under the Senior Credit Facility bear interest, at the Company’s option, at an applicable fixed margin over the lender’s base rate or London Interbank Offered Rate (LIBOR). The interest rate on LIBOR borrowings may be fixed for periods ranging from one to six months or, with the consent of all relevant lenders, nine or twelve months thereafter. LIBORs are set at the greater of the quoted rate or 1.25%.

The Company pays an annual administrative fee of $0.1 million and an unused commitment fee associated with the revolving portion of the facility (see discussion below).

***Mandatory and Other Prepayments***

The Senior Credit Facility permits prepayments by the Company at any time in whole or in part without premium or penalty. The Company must make mandatory repayments with the occurrence of specified events such as receipt of major casualty proceeds, proceeds from the sale of debt or equity securities, or proceeds from asset dispositions, which are not otherwise reinvested in the business or used for acquisitions or investments as such are permitted in the facility.

Provided below is a detailed discussion of each component of the Senior Credit Facility.

***(a) Revolving Credit Facility***

The Revolving Credit Facility provides for borrowings up to $50.0 million. Proceeds from the Revolving Credit Facility are used for working capital, capital expenditures, acquisitions, and general corporate purposes. Advances under the Revolving Credit Facility are unrestricted as long as such advances are used in accordance with the definition of "use of proceeds" and the aggregate outstanding balance of the revolving credit loans, swing line loans, and letter of credit obligations do not exceed $50 million. Borrowings under the revolver (including swing line borrowings) bear interest, as discussed above, plus a fixed bank margin of 4.5% for LIBOR loans or 3.5% for Base Rate Loans. The Company's previous revolving credit facility bore interest based upon the Company's Total Leverage Ratio (TLR), as reflected on the most recent compliance certificate filed with the lender, ranging from 3.50% to 3.75% for base rate loans and from 4.50% to 4.75% for LIBOR loans. When the TLR exceeded 3.75:1.00, interest accrued at the high end of the range, versus when TLR was equal to or less than 3.75:1.00 interest accrued at the low end of the range.. Interest rates on the Revolving Credit Facility ranged from 5.75% to 6.75% during 2013 and from 6.00% to 7.25% during 2012.

Interest is payable quarterly in arrears for base rate loans including swing line borrowings. Interest on LIBOR loans is payable on the last day of each interest period as determined by the disbursement, conversion, or continuation of such loan and its duration. Interest is due on each quarterly anniversary of LIBOR loans with terms in excess of three months.

An unused commitment fee ranging from 0.50% to 0.75% of the unused portion of the revolving line of the credit facility is due quarterly in arrears. During 2013 and 2012, the Company recognized unused commitment fees at a rate of 0.75%.

LOC fees accrue at the applicable rate for revolving credit loans and are paid quarterly in arrears. In addition, fronting fees (not to exceed 1.0% per annum) and customary administrative and processing fees are assessed with respect to each LOC.

***(b) Term Loans***

Term Loans bear interest, as discussed above, plus a fixed bank margin of 5.00% and 4.00% for LIBOR and base rate borrowings, respectively (the previous term loan facility bore interest of 4.75% and 3.75% for LIBOR and base rate borrowings, respectively). Interest rates on the Term Loans ranged from 6.25% to 7.25% during 2013 and were 6.00% during 2012. The repayment terms under the Senior Credit Facility require quarterly principal payments on the Term Loans of approximately $2.1 million with a balloon payment of approximately $282.6 million on December 27, 2018. However, at which time that the Gross First Lien Leverage Ratio, as defined in the facility, is less than 4.25 to 1.00, then the quarterly amortization payments will be permanently reduced to $1.4 million.

### *Amendment of Senior Credit Facility in March 2014*

On March 7, 2014, the Company amended its Senior Credit Facility to (i) increase the revolving loan commitments from $50.0 million to $82.0 million, (ii) provide a more favorable interest rate structure and less restrictive financial ratio covenants, and (iii) use the proceeds of Revolving Credit Loans to repay $47.0 million in outstanding Term Loans, thereby reducing the principal amount of outstanding Term Loans to $274.8 million and increasing the revolver borrowings outstanding to $50.0 million.

Borrowings under the revolving credit facility will bear interest as discussed above plus a new fixed bank margin of 3.0% for LIBOR loans or 2.0% for Base Rate Loans. Term Loan borrowings under the amendment will bear interest at the Company's option, at an applicable fixed-rate margin over the lender's base rate or LIBOR. New Term Loan margins are 3.75% and 4.75% for Base Rate loans and LIBOR loans, respectively. In addition, LIBOR rates will now be set at the greater of quoted rates or 1.00%.

The 2014 amendment extends the maturity date of the Senior Credit Facility to December 27, 2019 and provides for a prepayment premium of 0.50% on any amounts prepaid within six (6) months of the amendment date. There is no prepayment premium after the initial six month period.

The repayment terms under the amendment require quarterly principal payments on the Term Loans of approximately $1.7 million with the remaining unpaid principal due at maturity. However, at which time that the Gross First Lien Leverage Ratio, as defined in the facility, is less than 4.25 to 1.00, then the quarterly amortization payments will be permanently reduced to $1.2 million.

### Subordinated Debt Financing

#### *Overview*

As noted above, as part of the Senior Financing arrangement in connection with the acquisition of the Company, the Company entered into an $85.0 million Senior Subordinated Loan Agreement (the Subordinated Loan Agreement) that bore interest at 13%, payable quarterly in arrears. The agreement provided for prepayment penalties up until August 23, 2015, the fifth anniversary of the agreement.

On December 27, 2012, the Company refinanced its Subordinated Loans to increase the borrowings from $85 million to $112 million. The proceeds of the incremental borrowings were used to fund a portion of the PSR and ESI acquisitions (note 4), and a stockholder dividend in the amount of $73.0 million. The refinancing, among other things, reduced pricing under the Subordinated Loans and provided greater latitude in the Company's financial covenants. Based on the guidance provided in ASC Topic 470-50, the Company recorded a loss on extinguishment of debt of $4.9 million. The loss consisted primarily of a $1.5 million write-off of deferred financing fees and $3.4 million of prepayment penalties.

The Subordinated Loans mature June 27, 2019 and are secured by substantially all of the assets of the Company and its subsidiaries including all of the Company's outstanding capital stock. The Subordinated Loans limit the Company's ability to dispose of assets, incur additional indebtedness or contingent obligations, engage in mergers or consolidations, suffer additional liens, or engage in certain transactions with affiliates. The Subordinated Loans contain various customary covenants requiring that the Company comply with certain specified financial ratios and tests.

***Interest and Other Fees***

Borrowings under the Subordinated Loans bear interest, at the Company's option, at an applicable fixed margin over the lender's base rate or LIBOR. The interest rate on LIBOR borrowings may be fixed for periods ranging from one to six months or, with the consent of all relevant lenders, nine or twelve months thereafter. LIBORs are set at the greater of the quoted rate or 1.25%.

Subordinated Loans bear interest, as discussed above, plus a fixed bank margin of 9.00% and 8.00% for LIBOR and base rate borrowings, respectively (the previous agreement bore interest of 13.00%). The interest rate on the Subordinated Loans was 10.25% during 2013 and 2012.

The Company pays an annual administrative fee of $0.1 million.

***Mandatory and Other Prepayments***

The Subordinated Loan agreement provides for prepayment penalties up until December 27, 2015, the third anniversary of the agreement. However, prepayments of less than $30 million made out of "Net Cash Proceeds" from casualty events are not subject to a prepayment penalty during the first two years. The Company must make mandatory repayments with the occurrence of specified events such as receipt of major casualty proceeds, proceeds from the sale of debt or equity securities or proceeds from asset dispositions, which are not otherwise reinvested in the business or used for acquisitions or investments as such are permitted in the Facility.

***Amendment of Subordinated Loan Agreement in March 2014***

On March 7, 2014, the Company amended its Subordinated Loan Agreement to provide a more favorable interest rate structure, provide less restrictive financial ratio covenants, and extend the maturity date through June 27, 2020.

Term Loan borrowings under the amendment will bear interest at the Company's option, at an applicable fixed-rate margin over the lender's base rate or LIBOR. New Term Loan margins are 8.25% and 7.25% for Base Rate Loans and LIBOR Loans, respectively. In addition, LIBOR rates will now be set at the greater of quoted rates or 1.00%.

The 2014 Amendment provides for a prepayment premium of 2.00% through March 7, 2015; 0.82% for the period March 8, 2015 to March 7, 2016 and zero thereafter.

## (9) Income Taxes

Income tax benefit for the years ended December 31, 2013 and 2012 was as follows (in thousands):

| | | 2013 | 2012 |
|---|---|---|---|
| Current tax expense: | | | |
| Federal | $ | — | 158 |
| State | | 1,108 | 469 |
| | | 1,108 | 627 |
| Deferred tax benefit: | | | |
| Federal | | (4,034) | (4,665) |
| State | | (711) | (394) |
| | | (4,745) | (5,059) |
| Income tax benefit | $ | (3,637) | (4,432) |

A reconciliation of the benefit from income taxes to the expected amount based on the federal statutory rate of 35% for both 2013 and 2012 is as follows (in thousands):

| | | 2013 | 2012 |
|---|---|---|---|
| Expected federal income tax | $ | (3,783) | (4,683) |
| State taxes, net of federal benefit | | 258 | 46 |
| Nondeductible items | | 84 | 83 |
| Rate change on deferred taxes | | (201) | 21 |
| Acquisition-related costs | | — | 91 |
| Other, net | | 5 | 10 |
| | $ | (3,637) | (4,432) |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2013 and 2012 are presented below (in thousands):

| | | 2013 | 2012 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Stock-based incentive compensation | $ | 3,973 | 2,516 |
| Allowance for doubtful accounts | | 359 | 285 |
| Accrued bonus | | — | 945 |
| Accrued vacation | | 1,085 | 822 |
| Deferred revenue | | 442 | — |
| Acquisition costs | | 3,954 | 3,964 |
| Net operating loss carryforwards | | 9,027 | 6,597 |
| Federal tax credits | | 1,008 | 996 |
| Other | | 326 | 584 |
| Gross deferred income tax assets | | 20,174 | 16,709 |
| Deferred tax liabilities: | | | |
| Property and equipment | | 9,963 | 7,100 |
| Intangible assets | | 62,466 | 70,935 |
| Goodwill | | 14,235 | 9,381 |
| Deferred revenue | | — | 398 |
| Other | | 434 | 680 |
| Gross deferred income tax liabilities | | 87,098 | 88,494 |
| Net deferred income tax liabilities | $ | (66,924) | (71,785) |

| | | 2013 | 2012 |
|---|---|---|---|
| Consolidated balance sheet presentation: | | | |
| Current deferred income tax assets, net | $ | 2,091 | 1,791 |
| Noncurrent deferred income tax liabilities, net | | (69,015) | (73,576) |
| Net deferred income tax liabilities | $ | (66,924) | (71,785) |

The change in net deferred income tax liabilities as of December 31, 2012 included approximately $3.8 million in adjustments to intangible assets that did not impact deferred tax benefit.

The Company has recorded a deferred tax asset of $9.0 million reflecting the benefit of federal and state net operating loss carryforwards. Such deferred tax assets expire at various dates from 2027 through 2033. The Company recognizes valuation allowances on deferred tax assets reported if, based on the weight of evidence, management believes that it is more likely than not that some or all of the deferred tax assets will not be realized. The valuation allowance is based on the Company’s estimates of taxable income and the period over which deferred tax assets will be recovered. There is no valuation allowance recorded at December 31, 2013 and 2012 as management believes the deferred tax assets will be recognized due to the reversal of significant taxable temporary differences.

Due to the change of ownership provisions of the Tax Reform Act of 1986, utilization of a portion of the Company's domestic net operating loss and tax credit carryforwards may be limited in future periods. The Company does not expect the carryforwards to expire before being applied to reduce future income tax liabilities.

With few exceptions, as of December 31, 2013, the Company is no longer subject to U.S. federal, state, local, or foreign examinations by tax authorities for years before 2009. There was no liability for unrecognized tax benefits as of December 31, 2013 and 2012. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as interest expense in its consolidated statements of operations.

## (10) Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. A hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect a company's judgment concerning the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement

***Fair Value of Financial Assets***

The fair value of the cash and cash equivalents at December 31, 2013 and 2012 (which is equal to carrying value) is determined based on Level 1 inputs as follows (in thousands):

| Description | | 2013 fair value | 2012 fair value |
|---|---|---|---|
| Cash held in overnight depository or repurchase agreements collected on behalf of and due to customers | $ | 10,371 | 9,887 |
| Government collateralized money market funds and depository accounts | | 7,693 | 11,809 |

The carrying amount of accounts receivable, notes receivable, accounts payable and accrued expenses, client collections payable, other current liabilities, and accrued interest approximate fair value based on the short maturity of these accounts.

At December 31, 2013, the carrying value of the Senior Credit Facility and Subordinated loans approximated their fair market values based on the prices paid to transfer the liability in an orderly transaction as evidenced by the March 7, 2014 amendment of such debt (note 8).

At December 31, 2012, the carrying value of the Senior Credit Facility and Subordinated loans approximated their fair market values based on the prices paid to transfer the liability in an orderly transaction as evidenced by the December 27, 2012 refinancing of such debt (note 8).

## (11) Transactions with Related Parties

***Advisory and Professional Services Fees Paid to Related Parties***

The Company has an Advisory Services Agreement (the ASA) dated August 23, 2010, with THL Managers VI, LLC, a Delaware limited liability company (Sponsor) who is an affiliate of the Company's majority equity holders. Pursuant to the terms of the ASA, the Sponsor agrees to provide the Company certain management consulting, financial, and other advisory services as requested from time to time by the Board of Directors (BOD) or other governing body of the Company, as applicable, and agreed to by the Sponsor.

The ASA also provides for a Periodic Retainer Fee (the Periodic Fee) in an amount per year equal to the greater of (i) $0.8 million or (ii) 1.5% of consolidated Earnings Before Income Taxes, Depreciation and Amortization (EBITDA) (as defined in the ASA) for the immediately preceding fiscal year or such other amount or formula as may be mutually agreed between the Company and the Sponsor. Fees are payable in equal quarterly installments in advance on the first day of each fiscal quarter. The Company paid $1.1 million and $0.9 million in 2013 and 2012, respectively, pursuant to the Periodic Fee. The Periodic Fee payable in respect of the first fiscal quarter of any fiscal year shall be $0.2 million, with the Periodic Fee payable in succeeding quarters to be adjusted to include any incremental amount deemed payable in connection with the consolidated EBITDA performance measurement. In the event of an initial public offering or change of control event, the Company shall pay an amount equal to the net present value (using a discount rate equal to the then yield on U.S. Treasury securities of like maturity) of the Periodic Fees that would have been payable to Sponsor with respect to the period from the date of such transaction until the scheduled date of termination of the APA (the tenth anniversary of the Merger).

In addition, upon the consummation of any acquisitions, divestitures, financings, refinancings, mergers, recapitalizations, change of control events, or other transactions by the Company, Sponsor is entitled to a fee equal to up to 1% of the aggregate gross value of such transaction (plus reimbursement of expenses).

Furthermore, the Company agrees to indemnify the Sponsor and its affiliates against any and all actions including, and without limitation, all professional fees and expenses.

## (12) Benefit Plan

The Company provides a 401(k) plan for the benefit of eligible employees as defined by the plan. The 401(k) plan does not require a Company match. Any employer match is at the discretion of the Company. During 2013, the Company did not match any employee contributions. During 2012, the Company agreed to match 50% of participating employees' first 6% of compensation amounting to approximately \$0.5 million. At December 31, 2012, this amount was accrued and included in "Accrued payroll and related benefits" in the accompanying consolidated balance sheet. The 2012 accrual was paid in March 2013.

## (13) Commitments and Contingencies

### *(a) Litigation*

The Company is from time to time involved in litigation arising in the ordinary course of business. It is the opinion of management, after consulting with its legal counsel, that the outcome of such cases will not have a material adverse impact on the consolidated financial position or results of operations of the Company.

### *(b) Lease Commitments*

The Company leases office equipment and conducts its operations from leased office space located in Oklahoma City, Oklahoma; Jacksonville, Fort Lauderdale, and Miami, Florida; Oakland, Folsom, and California; Denver, Colorado; Houston, Dallas and San Antonio, Texas; Mechanicsburg and Pittsburgh, Pennsylvania; Milwaukee, Wisconsin; Columbus, Ohio; Augusta and Sandy Springs, Georgia; Raleigh, North Carolina; and Cumberland, Rhode Island. The leases expire on various dates through December 2018 and thereafter. Under the terms of most of the leases, the Company is required to pay all taxes, insurance, and maintenance.


(Continued)

Future minimum rental payments for noncancelable leases having an initial lease term in excess of one year at December 31, 2013 are summarized as follows (in thousands):

| | | **Operating leases** |
|---|---|---|
| Years ending December 31: | | |
| 2014 | $ | 4,374 |
| 2015 | | 4,028 |
| 2016 | | 3,561 |
| 2017 | | 2,791 |
| 2018 | | 2,595 |
| Thereafter | | 9,200 |
| Total minimum payments | $ | 26,549 |

Many of the operating leases provide for renewal at varying escalations. Fixed rent escalations have been included in the table disclosed above.

Rent expense incurred under operating leases totaled $4.6 million and $3.1 million for the years ended December 31, 2013 and 2012, respectively.

The Company has been granted lease incentives such as rent abatement periods and leasehold allowances under certain of its leases. The accompanying consolidated statements of operations reflect rent expense on a straight-line basis over the term of the respective leases. An obligation of $0.8 million and $0.9 million representing the remaining unamortized lease incentives is reflected in "Other long-term liabilities" in the accompanying consolidated balance sheets at December 31, 2013 and 2012, respectively.

## (14) Stock Based Incentive Compensation

***Intermedix Holdings Inc. 2010 Stock Option Plan (the 2010 Stock Option Plan)***

Pursuant to the terms of the 2010 Stock Option Plan the Company is authorized to issue options to acquire up to 501,352 shares of common stock of the Company to employees and service providers of the Company. Certain members of the Company's management and professional staff were issued 10-year options to purchase shares of common stock of the Company. All stock options granted under the 2010 Stock Option Plan were granted with an exercise price at least equal to the underlying stock's fair value at the date of grant. The Company's options vest at a rate of 20% per year over a 5-year term.

Any unexercised portion of the options will automatically terminate upon the tenth anniversary of the issuance date or following termination of employment. In addition, pursuant to the grant agreements under which such stock options were issued, the Company's board of directors has the right to cause all or any portion of any unvested options to immediately vest and become exercisable upon a sale of the Company or at such other time as the BOD may elect.

Stock-based compensation expense is shown as an individual line on the accompanying consolidated statements of operations. The Company accounts for its equity-based awards using ASC Topic 718. This statement requires entities to measure compensation expense for all equity-based awards granted, modified, or settled using the fair value measurement method and to recognize the costs in income over the requisite service period, which is generally the vesting period. The Company has elected to recognize these costs on a straight-line basis.

The fair value of each stock option award is estimated on the date of grant using BSM option pricing model. The weighted average grant-date value of each option grant awarded during the years ended 2013 and 2012 was as follows:

| | | 2013 | 2012 |
|---|---|---|---|
| Weighted average grant-date value of options granted | $ | 105.00 | 105.00 |
| Assumptions: | | | |
| Risk-free rate of return | | 0.92-1.72% | 0.86 – 1.13% |
| Expected life in years | | 6.50 | 6.50 |
| Expected volatility | | 44.0% | 44.5% |
| Expected dividend yield | | — | — |

The risk-free rate of return is determined based on a yield curve of U.S. Treasury rates ranging from five to seven years, which is the period commensurate with the expected life of options granted. Expected life in years is calculated using the simplified method, as permitted under ASC Topic 718, given the Company's lack of historical experience with respect to the lives of options granted and postvesting termination patterns. Since the Company has no historical basis for determining its own volatility, the expected volatility is established based on a peer group comprising companies similar to that of the Company. The expected dividend yield is zero as the Company has not paid any cash dividends and does not anticipate it will do so in the foreseeable future.

As discussed in note 8, on December 20, 2012, the BOD of the Company authorized, approved, and declared an extraordinary cash dividend, which was paid in December 2012. On January 3, 2013, the Compensation Committee of the BOD reduced the exercise price of all outstanding options that were granted prior to November 29, 2012 (the stockholder Record Date) by $20.54 per share. This action was taken pursuant to the 2010 Stock Option Plan that provides for option adjustments in the event of certain antidilution transactions. In accordance with ASC 718, *Compensation—Stock Compensation*, the dividend did not qualify as a modification to the existing stock options. Accordingly, no additional compensation expense has been recognized in the consolidated financial statements.

A summary of stock option activity under the 2010 Stock Option Plan during the years ended 2013 and 2012 is as follows (in thousands, except for exercise price and term):

| | Number of options | Weighted average exercise price | Weighted average remaining contractual term (years) | Aggregate calculated intrinsic value |
|---|---|---|---|---|
| Outstanding at December 31, 2011 | 446 | 119.73 | 5.35 | $ 15,958 |
| Granted during 2012 | 33 | 117.19 | 6.50 | 1,456 |
| Exercised | — | — | — | — |
| Canceled or forfeited | (72) | 120.62 | 4.40 | (2,549) |
| Outstanding at December 31, 2012 | 407 | 119.37 | 4.44 | 14,865 |
| Granted during 2013 | 99 | 105.96 | 5.66 | 4,637 |
| Impact of exercise price reduction | — | (16.60) | — | — |
| Exercised | — | — | — | — |
| Canceled or forfeited | (17) | 103.96 | 4.40 | (724) |
| Outstanding at December 31, 2013 | 489 | 100.09 | 3.68 | $ 18,778 |

## (15) Subsequent Events

The Company has reviewed and evaluated subsequent events from the balance sheet date as of December 31, 2013 through April 29, 2014. On April 11, 2014, the Company’s wholly-owned subsidiary, Systems acquired all of the outstanding stock of Optima Corporation, a New Zealand based software development company. The purchase price of $6.2 million was funded through borrowings from the revolving credit facility and internally generated cash.