



**NIFS ID:**CQPD20000001      **Department:** Police Dept.

**E-69-20**

**Capital:**

SERVICE: Ambulance billing services

Contract ID #:CQPD20000001      NIFS Entry Date: 12-MAR-20      Term: from to

New
Time Extension:
Addl. Funds:
Blanket Resolution:
RES#

1) Mandated Program:	N
2) Comptroller Approval Form Attached:	Y
3) CSEA Agmt. § 32 Compliance Attached:	N
4) Material Adverse Information Identified? (if yes, attach memo):	N
5) Insurance Required	Y

<b>Vendor Info:</b>	
Name: <b>Change Healthcare Technology Enabled Services</b>	Vendor ID#: [REDACTED]
Address: 3055 Lebanon Pike Nashville, TN 37214	Contact Person: [REDACTED] [REDACTED]
	Phone:

<b>Department:</b>
Contact Name: Jaclyn Delle
Address: 1 West St. Mineola, NY 11550
Phone: 5165713054

## Routing Slip

Department	NIFS Entry: X	16-APR-20 -- JDELLEPD
Department	NIFS Approval: X	16-APR-20 -- JDELLEPD
DPW	Capital Fund Approved:	
OMB	NIFA Approval: X	21-APR-20 -- IQURESHI
OMB	NIFS Approval: X	16-APR-20 -- JNOGID
County Atty.	Insurance Verification: X	16-APR-20 -- DMCDERMOTT
County Atty.	Approval to Form: X	16-APR-20 -- DMCDERMOTT
CPO	Approval: X	23-APR-20 -- KOHAGENCE

<b>DCEC</b>	<b>Approval: X</b>	<b>23-APR-20 -- JCHIARA</b>
<b>Dep. CE</b>	<b>Approval: X</b>	<b>24-APR-20 -- TFOX</b>
<b>Leg. Affairs</b>	<b>Approval/Review: X</b>	<b>27-APR-20 -- JSCHANTZ</b>
<b>Legislature</b>	<b>Approval:</b>	
<b>Comptroller</b>	<b>Deputy:</b>	
<b>NIFA</b>	<b>NIFA Approval:</b>	

## Contract Summary

<b>Purpose:</b> New contract for the recording and transmission of pre-hospital care reports, and billing and fee collection services for the Nassau County Police Department's Emergency Ambulance Service.
<b>Method of Procurement:</b> A Request for Proposals ("RFP") was issued on February 15, 2019 for these services. The Department received four (4) proposals in response to the RFP. An evaluation committee was formed consisting of members of the Department's Emergency Ambulance Bureau and County Attorney's Office. The proposals were scored and ranked, and the contract was awarded to the highest scoring proposer (Change Healthcare).
<b>Procurement History:</b> New contract. Please see method of procurement above.
<b>Description of General Provisions:</b> As described above.
<b>Impact on Funding / Price Analysis:</b> Emergency ambulance billing is revenue generating. Encumbering \$750,000 to pay vendor's percentage of net revenues, as per the contract.
<b>Change in Contract from Prior Procurement:</b> N/A
<b>Recommendation: (approve as submitted)</b> Approve as submitted.

## Advisement Information

BUDGET CODES		FUNDING SOURCE	AMOUNT	LINE	INDEX/OBJECT CODE	AMOUNT
Fund:	PDH	Revenue		1	PDPDH1484/DE500	\$ 750,000.00
Control:	PD	Contract:				\$ 0.00
Resp:	1484	County	\$ 750,000.00			\$ 0.00
Object:	DE500	Federal	\$ 0.00			\$ 0.00
Transaction:		State	\$ 0.00			\$ 0.00
Project #:		Capital	\$ 0.00			\$ 0.00
Detail:		Other	\$ 0.00			\$ 0.00
RENEWAL		TOTAL	\$ 750,000.00		TOTAL	\$ 750,000.00
% Increase						
% Decrease						

RULES RESOLUTION NO. – 2020

A RESOLUTION AUTHORIZING THE COUNTY EXECUTIVE TO EXECUTE A PERSONAL SERVICES AGREEMENT BETWEEN THE COUNTY OF NASSAU, ACTING ON BEHALF OF THE NASSAU COUNTY POLICE DEPARTMENT, AND CHANGE HEALTHCARE TECHNOLOGY ENABLED SERVICES, LLC

WHEREAS, the County has negotiated a personal services agreement with Change Healthcare Technology Enabled Services, LLC, to provide the recording and transmission of pre-hospital care reports and billing and collection services for the Department's ambulance bureau, a copy of which is on file with the Clerk of the Legislature; now, therefore, be it

RESOLVED, that the Rules Committee of the Nassau County Legislature authorizes the County Executive to execute the said agreement with Change Healthcare Technology Enabled Services, LLC.



**Contract Approval Request Form (As of January 1, 2015)**

**1. Vendor:** Change Healthcare Technology Enabled Services

**2. Dollar amount requiring NIFA approval:** \$750000

**Amount to be encumbered:** \$750000

This is a New

If new contract - \$ amount should be full amount of contract

If advisement – NIFA only needs to review if it is increasing funds above the amount previously approved by NIFA

If amendment - \$ amount should be full amount of amendment only

**3. Contract Term: Effective date - 5 years**

Has work or services on this contract commenced? N \_\_\_\_

If yes, please explain:

**4. Funding Source:**

X General Fund (GEN)

Grant Fund (GRT)

Capital Improvement Fund (CAP)

Other

Federal % 0

State % 0

County % 100

Is the cash available for the full amount of the contract?

Y

If not, will it require a future borrowing?

N

Has the County Legislature approved the borrowing?

N/A

Has NIFA approved the borrowing for this contract?

N/A

**5. Provide a brief description (4 to 5 sentences) of the item for which this approval is requested:**

New contract for the recording and transmission of pre-hospital care reports, and billing and fee collection services for the Nassau County Police Department's Emergency Ambulance Service.

**6. Has the item requested herein followed all proper procedures and thereby approved by the:**

Nassau County Attorney as to form Y

Nassau County Committee and/or Legislature

**Date of approval(s) and citation to the resolution where approval for this item was provided:**

**7. Identify all contracts (with dollar amounts) with this or an affiliated party within the prior 12 months:**

Contract ID	Date	Amount



## AUTHORIZATION

To the best of my knowledge, I hereby certify that the information contained in this Contract Approval Request Form and any additional information submitted in connection with this request is true and accurate and that all expenditures that will be made in reliance on this authorization are in conformance with the Nassau County Approved Budget and not in conflict with the Nassau County Multi-Year Financial Plan. I understand that NIFA will rely upon this information in its official deliberations.

IQURESHI

21-APR-20

**Authenticated User**

**Date**

## COMPTROLLER'S OFFICE

To the best of my knowledge, I hereby certify that the information listed is true and accurate and is in conformance with the Nassau County Approved Budget and not in conflict with the Nassau County Multi-Year Financial Plan.

Regarding funding, please check the correct response:

☐ I certify that the funds are available to be encumbered pending NIFA approval of this contract.

If this is a capital project:

I certify that the bonding for this contract has been approved by NIFA.

Budget is available and funds have been encumbered but the project requires NIFA bonding authorization

**Authenticated User**

**Date**

## NIFA

Amount being approved by NIFA:

Payment is not guaranteed for any work commenced prior to this approval.

**Authenticated User**

**Date**

**NOTE: All contract submissions MUST include the County's own routing slip, current NIFS printouts for all relevant accounts and relevant Nassau County Legislature communication documents and relevant supplemental information pertaining to the item requested herein.**

**NIFA Contract Approval Request Form MUST be filled out in its entirety before being submitted to NIFA for review.**

**NIFA reserves the right to request additional information as needed.**

Jack Schnirman  
Comptroller



OFFICE OF THE COMPTROLLER  
240 Old Country Road  
Mineola, New York 11501

## COMPTROLLER APPROVAL FORM FOR PERSONAL, PROFESSIONAL OR HUMAN SERVICES CONTRACTS

*Attach this form along with all personal, professional or human services contracts, contract renewals, extensions and amendments.*

**CONTRACTOR NAME:** Change Healthcare Technology Enabled Services

**CONTRACTOR ADDRESS:** 3055 Lebanon Pike, Nashville TN 37214

**FEDERAL TAX ID #:** 58-1953146

**Instructions:** Please check the appropriate box ("☑") after one of the following roman numerals, and provide all the requested information.

**I. ☐ The contract was awarded to the lowest, responsible bidder after advertisement for sealed bids.** The contract was awarded after a request for sealed bids was published in \_\_\_\_\_ [newspaper] on \_\_\_\_\_ [date]. The sealed bids were publicly opened on \_\_\_\_\_ [date]. \_\_\_\_\_ [#] of sealed bids were received and opened.

**II. ☒ The contractor was selected pursuant to a Request for Proposals.**

The Contract was entered into after a written request for proposals was issued on Feb. 15, 2019 \_\_\_\_\_ [date]. Potential proposers were made aware of the availability of the RFP by advertisement in Newsday, County website, and NYS Contract reporter [newspaper], posting on industry websites, via email to interested parties and by publication on the County procurement website. Proposals were due on March 22, 2019 [date]. Four (4) [state #] proposals were received and evaluated. The evaluation committee consisted of: Four (4) members of the NCPD Emergency Ambulance Bureau, and one (1) non-voting advisory member from the County Attorney's Office.

\_\_\_\_\_ (list # of persons on committee and their respective departments). The proposals were scored and ranked. As a result of the scoring and ranking, the highest-ranking proposer was selected.

**III. ☐ This is a renewal, extension or amendment of an existing contract.**

The contract was originally executed by Nassau County on \_\_\_\_\_[date]. This is a renewal or extension pursuant to the contract, or an amendment within the scope of the contract or RFP (copies of the relevant pages are attached). The original contract was entered into after \_\_\_\_\_

\_\_\_\_\_[describe procurement method, i.e., RFP, three proposals evaluated, etc.] Attach a copy of the most recent evaluation of the contractor's performance for any contract to be renewed or extended. If the contractor has not received a satisfactory evaluation, the department must explain why the contractor should nevertheless be permitted to continue to contract with the county.

**IV. ☐ Pursuant to Executive Order No. 1 of 1993, as amended, at least three proposals were solicited and received. The attached memorandum from the department head describes the proposals received, along with the cost of each proposal.**

- ☐ **A.** The contract has been awarded to the proposer offering the lowest cost proposal; **OR:**
- ☐ **B.** The attached memorandum contains a detailed explanation as to the reason(s) why the contract was awarded to other than the lowest-cost proposer. The attachment includes a specific delineation of the unique skills and experience, the specific reasons why a proposal is deemed superior, and/or why the proposer has been judged to be able to perform more quickly than other proposers.

**V. ☐ Pursuant to Executive Order No. 1 of 1993 as amended, the attached memorandum from the department head explains why the department did not obtain at least three proposals.**

- ☐ **A.** There are only one or two providers of the services sought or less than three providers submitted proposals. The memorandum describes how the contractor was determined to be the sole source provider of the personal service needed or explains why only two proposals could be obtained. If two proposals were obtained, the memorandum explains that the contract was awarded to the lowest cost proposer, or why the selected proposer offered the higher quality proposal, the proposer's unique and special experience, skill, or expertise, or its availability to perform in the most immediate and timely manner.
- ☐ **B.** The memorandum explains that the contractor's selection was dictated by the terms of a federal or New York State grant, by legislation or by a court order. (Copies of the relevant documents are attached).
- ☐ **C.** Pursuant to General Municipal Law Section 104, the department is purchasing the services required through a New York State Office of General Services contract no. \_\_\_\_\_, and the attached memorandum explains how the purchase is within the scope of the terms of that contract.



- ☐ **D.** Pursuant to General Municipal Law Section 119-o, the department is purchasing the services required through an inter-municipal agreement.

**VI. ☐ This is a human services contract with a not-for-profit agency for which a competitive process has not been initiated.** Attached is a memorandum that explains the reasons for entering into this contract without conducting a competitive process, and details when the department intends to initiate a competitive process for the future award of these services. For any such contract, where the vendor has previously provided services to the county, attach a copy of the most recent evaluation of the vendor's performance. If the contractor has not received a satisfactory evaluation, the department must explain why the contractor should nevertheless be permitted to contract with the county.

In certain limited circumstances, conducting a competitive process and/or completing performance evaluations may not be possible because of the nature of the human services program, or because of a compelling need to continue services through the same provider. In those circumstances, attach an explanation of why a competitive process and/or performance evaluation is inapplicable.

**VII. ☐ This is a public works contract for the provision of architectural, engineering or surveying services.** The attached memorandum provides details of the department's compliance with Board of Supervisors' Resolution No. 928 of 1993, including its receipt and evaluation of annual Statements of Qualifications & Performance Data, and its negotiations with the most highly qualified firms.

**Instructions with respect to Sections VIII, IX and X:** All Departments must check the box for VIII. Then, check the box for either IX or X, as applicable.

**VIII. ☒ Participation of Minority Group Members and Women in Nassau County Contracts.** The selected contractor has agreed that it has an obligation to utilize best efforts to hire MWBE sub-contractors. Proof of the contractual utilization of best efforts as outlined in Exhibit "EE" may be requested at any time, from time to time, by the Comptroller's Office prior to the approval of claim vouchers.

**IX. ☐ Department MWBE responsibilities.** To ensure compliance with MWBE requirements as outlined in Exhibit "EE", Department will require vendor to submit list of sub-contractor requirements prior to submission of the first claim voucher, for services under this contract being submitted to the Comptroller.

**X. ☒ Vendor will not require any sub-contractors.**

**In addition, if this is a contract with an individual or with an entity that has only one or two employees:** ☐ a review of the criteria set forth by the Internal Revenue Service, *Revenue Ruling No. 87-41*, 1987-1 C.B. 296, attached as Appendix A to the Comptroller's Memorandum, dated February 13, 2004, concerning independent contractors and employees indicates that the contractor would not be considered an employee for federal tax purposes.

  
\_\_\_\_\_  
**Department Head Signature**

4/1/20  
\_\_\_\_\_  
**Date**

**NOTE:** Any information requested above, or in the exhibit below, may be included in the county's "staff summary" form in lieu of a separate memorandum.



COUNTY OF NASSAU

POLITICAL CAMPAIGN CONTRIBUTION DISCLOSURE FORM

1. Has the vendor or any corporate officers of the vendor provided campaign contributions pursuant to the New York State Election Law in (a) the period beginning April 1, 2016 and ending on the date of this disclosure, or (b), beginning April 1, 2018, the period beginning two years prior to the date of this disclosure and ending on the date of this disclosure, to the campaign committees of any of the following Nassau County elected officials or to the campaign committees of any candidates for any of the following Nassau County elected offices: the County Executive, the County Clerk, the Comptroller, the District Attorney, or any County Legislator?

YES ☐ NO ☒ If yes, to what campaign committee?

2. VERIFICATION: This section must be signed by a principal of the consultant, contractor or Vendor authorized as a signatory of the firm for the purpose of executing Contracts.

The undersigned affirms and so swears that he/she has read and understood the foregoing statements and they are, to his/her knowledge, true and accurate.

The undersigned further certifies and affirms that the contribution(s) to the campaign committees identified above were made freely and without duress, threat or any promise of a governmental benefit or in exchange for any benefit or remuneration.

Electronically signed and certified at the date and time indicated by:  
Scott Schrader [SCOTT.SCHRADER@CHANGEHEALTHCARE.COM]

Dated: 01/02/2020 01:36:40 PM

Vendor: Change Healthcare Technology Enabled  
Services

Title: Chief Commercial Officer, TES

## PRINCIPAL QUESTIONNAIRE FORM

All questions on these questionnaires must be answered by all officers and any individuals who hold a ten percent (10%) or greater ownership interest in the proposer. Answers typewritten or printed in ink. If you need more space to answer any question, make as many photocopies of the appropriate page(s) as necessary and attach them to the questionnaire.

**COMPLETE THIS QUESTIONNAIRE CAREFULLY AND COMPLETELY. FAILURE TO SUBMIT A COMPLETE QUESTIONNAIRE MAY MEAN THAT YOUR BID OR PROPOSAL WILL BE REJECTED AS NON-RESPONSIVE AND IT WILL NOT BE CONSIDERED FOR AWARD**

1. Principal Name: Morris Maybruch  
Date of birth:                       
Home address:                       
City:                      State/Province/Territory:            Zip/Postal Code:             
Country: US

Business Address: 1 Blue Hill Plaza  
City: Pearl River State/Province/Territory: NY Zip/Postal Code: 10965  
Country: US  
Telephone: 8453684800

Other present address(es):  
City: Nashville State/Province/Territory:            Zip/Postal Code:             
Country:             
Telephone:           

List of other addresses and telephone numbers attached

2. Positions held in submitting business and starting date of each (check all applicable)

President	_____	Treasurer	_____
Chairman of Board	_____	Shareholder	_____
Chief Exec. Officer	_____	Secretary	_____
Chief Financial Officer	_____	Partner	_____
Vice President	_____		
(Other)	_____		

Type	Description	Start Date
Other	Senior Operations Manager	06/04/2012

3. Do you have an equity interest in the business submitting the questionnaire?

YES ☐ NO ☒ If Yes, provide details.

4. Are there any outstanding loans, guarantees or any other form of security or lease or any other type of contribution made in whole or in part between you and the business submitting the questionnaire?

YES ☐ NO ☒ If Yes, provide details.

5. Within the past 3 years, have you been a principal owner or officer of any business or notfor-profit organization other than the one submitting the questionnaire?  
YES ☐ NO ☒ If Yes, provide details.

6. Has any governmental entity awarded any contracts to a business or organization listed in Section 5 in the past 3 years while you were a principal owner or officer?  
YES ☐ NO ☒ If Yes, provide details.

NOTE: An affirmative answer is required below whether the sanction arose automatically, by operation of law, or as a result of any action taken by a government agency. Provide a detailed response to all questions checked "YES". If you need more space, photocopy the appropriate page and attach it to the questionnaire.

7. In the past (5) years, have you and/or any affiliated businesses or not-for-profit organizations listed in Section 5 in which you have been a principal owner or officer:
- a. Been debarred by any government agency from entering into contracts with that agency?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- b. Been declared in default and/or terminated for cause on any contract, and/or had any contracts cancelled for cause?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- c. Been denied the award of a contract and/or the opportunity to bid on a contract, including, but not limited to, failure to meet pre-qualification standards?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- d. Been suspended by any government agency from entering into any contract with it; and/or is any action pending that could formally debar or otherwise affect such business's ability to bid or propose on contract?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

8. Have any of the businesses or organizations listed in response to Question 5 filed a bankruptcy petition and/or been the subject of involuntary bankruptcy proceedings during the past 7 years, and/or for any portion of the last 7 year period, been in a state of bankruptcy as a result of bankruptcy proceedings initiated more than 7 years ago and/or is any such business now the subject of any pending bankruptcy proceedings, whenever initiated?

YES ☐ NO ☒ If 'Yes', provide details for each such instance. (Provide a detailed response to all questions check "Yes". If you need more space, photocopy the appropriate page and attached it to the questionnaire.)

9.

- a. Is there any felony charge pending against you?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- b. Is there any misdemeanor charge pending against you?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- c. Is there any administrative charge pending against you?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- d. In the past 10 years, have you been convicted, after trial or by plea, of any felony, or of any other crime, an element of which relates to truthfulness or the underlying facts of which related to the conduct of business? Y  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- e. In the past 5 years, have you been convicted, after trial or by plea, of a misdemeanor?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

- f. In the past 5 years, have you been found in violation of any administrative or statutory charges?  
YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

10. In addition to the information provided in response to the previous questions, in the past 5 years, have you been the subject of a criminal investigation and/or a civil anti-trust investigation by any federal, state or local prosecuting or investigative agency and/or the subject of an investigation where such investigation was related to activities performed at, for, or on behalf of the submitting business entity and/or an affiliated business listed in response to Question 5?

YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

11. In addition to the information provided, in the past 5 years has any business or organization listed in response to Question 5, been the subject of a criminal investigation and/or a civil anti-trust investigation and/or any other type of investigation by any government agency, including but not limited to federal, state, and local regulatory agencies while you were a principal owner or officer?

YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

12. In the past 5 years, have you or this business, or any other affiliated business listed in response to Question 5 had any sanction imposed as a result of judicial or administrative proceedings with respect to any professional license held?

YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

13. For the past 5 tax years, have you failed to file any required tax returns or failed to pay any applicable federal, state or local taxes or other assessed charges, including but not limited to water and sewer charges?

YES ☐ NO ☒ If yes, provide an explanation of the circumstances and corrective action taken.

I, Morris Maybruch , hereby acknowledge that a materially false statement willfully or fraudulently made in connection with this form may result in rendering the submitting business entity and/or any affiliated entities non-responsible, and, in addition, may subject me to criminal charges.

I, Morris Maybruch , hereby certify that I have read and understand all the items contained in this form; that I supplied full and complete answers to each item therein to the best of my knowledge, information and belief; that I will notify the County in writing of any change in circumstances occurring after the submission of this form; and that all information supplied by me is true to the best of my knowledge, information and belief. I understand that the County will rely on the information supplied in this form as additional inducement to enter into a contract with the submitting business entity.

**CERTIFICATION**

A MATERIALLY FALSE STATEMENT WILLFULLY OR FRAUDULENTLY MADE IN CONNECTION WITH THIS QUESTIONNAIRE MAY RESULT IN RENDERING THE SUBMITTING BUSINESS ENTITY NOT RESPONSIBLE WITH RESPECT TO THE PRESENT BID OR FUTURE BIDS, AND, IN ADDITION, MAY SUBJECT THE PERSON MAKING THE FALSE STATEMENT TO CRIMINAL CHARGES.

Change Healthcare Technology Enabled Services LLC

Name of submitting business

Electronically signed and certified at the date and time indicated by:

Morris Maybruch [MORRIS.MAYBRUCH@CHANGEHEALTHCARE.COM]

Senior Operations Manager

Title

01/03/2020 02:07:19 PM

Date

## Business History Form

The contract shall be awarded to the responsible proposer who, at the discretion of the County, taking into consideration the reliability of the proposer and the capacity of the proposer to perform the services required by the County, offers the best value to the County and who will best promote the public interest.

In addition to the submission of proposals, each proposer shall complete and submit this questionnaire. The questionnaire shall be filled out by the owner of a sole proprietorship or by an authorized representative of the firm, corporation or partnership submitting the Proposal.

**NOTE: All questions require a response, even if response is "none" or "not-applicable." No blanks.**

(USE ADDITIONAL SHEETS IF NECESSARY TO FULLY ANSWER THE FOLLOWING QUESTIONS).

Date: 09/30/2019

1) Proposer's Legal Name: Change Healthcare Technology Enabled Services LLC

2) Address of Place of Business: 3055 Lebanon Pike

City: Nashville State/Province/Territory: TN Zip/Postal Code: 37214

Country: \_\_\_\_\_

Address: 1 Blue Hill Plaza

City: Pearl River State/Province/Territory: NY Zip/Postal Code: 10965

Country: \_\_\_\_\_

Start Date: \_\_\_\_\_ End Date: \_\_\_\_\_

3) Mailing Address (if different): \_\_\_\_\_

City: \_\_\_\_\_ State/Province/Territory: \_\_\_\_\_ Zip/Postal Code: \_\_\_\_\_

Country: \_\_\_\_\_

Phone: \_\_\_\_\_

Does the business own or rent its facilities? Both If other, please provide details:

\_\_\_\_\_

4) Dun and Bradstreet number: 61-6809588

5) Federal I.D. Number: 58-1953146

6) The proposer is a: Other (Describe) Limited Liability Company

7) Does this business share office space, staff, or equipment expenses with any other business?

YES ☐ NO ☒ If yes, please provide details:

\_\_\_\_\_

8) Does this business control one or more other businesses?



YES ☒ NO ☐ If yes, please provide details:

Change Healthcare LLC

- 9) Does this business have one or more affiliates, and/or is it a subsidiary of, or controlled by, any other business?

YES ☒ NO ☐ If yes, please provide details:

This business is controlled by its parent Change Healthcare LLC

- 10) Has the proposer ever had a bond or surety cancelled or forfeited, or a contract with Nassau County or any other government entity terminated?

YES ☐ NO ☒ If yes, state the name of bonding agency, (if a bond), date, amount of bond and reason for such cancellation or forfeiture: or details regarding the termination (if a contract).

- 11) Has the proposer, during the past seven years, been declared bankrupt?

YES ☐ NO ☒ If yes, state date, court jurisdiction, amount of liabilities and amount of assets

- 12) In the past five years, has this business and/or any of its owners and/or officers and/or any affiliated business, been the subject of a criminal investigation and/or a civil anti-trust investigation by any federal, state or local prosecuting or investigative agency? And/or, in the past 5 years, have any owner and/or officer of any affiliated business been the subject of a criminal investigation and/or a civil anti-trust investigation by any federal, state or local prosecuting or investigative agency, where such investigation was related to activities performed at, for, or on behalf of an affiliated business.

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

- 13) In the past 5 years, has this business and/or any of its owners and/or officers and/or any affiliated business been the subject of an investigation by any government agency, including but not limited to federal, state and local regulatory agencies? And/or, in the past 5 years, has any owner and/or officer of an affiliated business been the subject of an investigation by any government agency, including but not limited to federal, state and local regulatory agencies, for matters pertaining to that individual's position at or relationship to an affiliated business.

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

- 14) Has any current or former director, owner or officer or managerial employee of this business had, either before or during such person's employment, or since such employment if the charges pertained to events that allegedly occurred during the time of employment by the submitting business, and allegedly related to the conduct of that business:

a) Any felony charge pending?

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

b) Any misdemeanor charge pending?

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

c) In the past 10 years, you been convicted, after trial or by plea, of any felony and/or any other crime, an element of which relates to truthfulness or the underlying facts of which related to the conduct of business?

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

d) In the past 5 years, been convicted, after trial or by plea, of a misdemeanor?

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

e) In the past 5 years, been found in violation of any administrative, statutory, or regulatory provisions?

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

- 15) In the past (5) years, has this business or any of its owners or officers, or any other affiliated business had any sanction imposed as a result of judicial or administrative proceedings with respect to any professional license held?

YES ☐ NO ☒ If yes, provide details for each such investigation, an explanation of the circumstances and corrective action taken.

- 16) For the past (5) tax years, has this business failed to file any required tax returns or failed to pay any applicable federal, state or local taxes or other assessed charges, including but not limited to water and sewer charges?

YES ☐ NO ☒ If yes, provide details for each such year. Provide a detailed response to all questions checked 'YES'. If you need more space, photocopy the appropriate page and attach it to the questionnaire.

- 17) Conflict of Interest:

a) Please disclose any conflicts of interest as outlined below. NOTE: If no conflicts exist, please expressly state "No conflict exists."

(i) Any material financial relationships that your firm or any firm employee has that may create a conflict of interest or the appearance of a conflict of interest in acting on behalf of Nassau County.

No conflict exists

(ii) Any family relationship that any employee of your firm has with any County public servant that may create a conflict of interest or the appearance of a conflict of interest in acting on behalf of Nassau County.

No conflict exists

(iii) Any other matter that your firm believes may create a conflict of interest or the appearance of a conflict of interest in acting on behalf of Nassau County.

No conflict exists

- b) Please describe any procedures your firm has, or would adopt, to assure the County that a conflict of interest would not exist for your firm in the future.

We will contact the County should a potential conflict arise to be guided accordingly.

- A. Include a resume or detailed description of the Proposer's professional qualifications, demonstrating extensive experience in your profession. Any prior similar experiences, and the results of these experiences, must be identified.

Have you previously uploaded the below information under in the Document Vault?

YES ☐ NO ☒

Is the proposer an individual?

YES ☐ NO ☒ Should the proposer be other than an individual, the Proposal MUST include:

- i) Date of formation;

01/16/1990

- ii) Name, addresses, and position of all persons having a financial interest in the company, including shareholders, members, general or limited partner. If none, explain.

We have included our most recent form 10-Q to provide the requested information.

*No individuals with a financial interest in the company have been attached..*

1 File(s) Uploaded:

- iii) Name, address and position of all officers and directors of the company. If none, explain.

*No officers and directors from this company have been attached.*

1 File(s) Uploaded:

- iv) State of incorporation (if applicable);

GA

- v) The number of employees in the firm;

1500

- vi) Annual revenue of firm;

1000000000

- vii) Summary of relevant accomplishments

We have provided EMS billing services to the New York metropolitan area for over 25 years. Our collection rate of over \$500/transport is one of the highest in the country. We have over 200 EMS billing clients and process more than 1 million transports annually.

viii) Copies of all state and local licenses and permits.

B. Indicate number of years in business.

29

C. Provide any other information which would be appropriate and helpful in determining the Proposer's capacity and reliability to perform these services.

We have been providing EMS billing services to Nassau County for 16 years.

D. Provide names and addresses for no fewer than three references for whom the Proposer has provided similar services or who are qualified to evaluate the Proposer's capability to perform this work.

Company	Town of Ramapo		
Contact Person	John Lynch, Director of Finance		
Address	237 Route 59		
City	Suffern	State/Province/Territory	NY
Country			
Telephone	(845) 357-5100		
Fax #			
E-Mail Address	john.lynch@ramapo.org		

Company	Town of Greenburgh		
Contact Person	Jared Rosenberg, Director of EMS Services		
Address	188 Terrytown Road		
City	White Plains	State/Province/Territory	NY
Country			
Telephone	(914) 682-5345		
Fax #			
E-Mail Address	jrosenberg@greengurghny.com		

Company	Change Healthcare Technology Enabled Services LLC		
Contact Person	George Speaks, Deputy Director of Public Safety		
Address	3055 Lebanon Pike		
City	Nashville	State/Province/Territory	TN
Country			
Telephone	(614) 645-8210		
Fax #			
E-Mail Address	gespeaks@columbus.gov		

I, Scott Schrader , hereby acknowledge that a materially false statement willfully or fraudulently made in connection with this form may result in rendering the submitting business entity and/or any affiliated entities non-responsible, and, in addition, may subject me to criminal charges.

I, Scott Schrader , hereby certify that I have read and understand all the items contained in this form; that I supplied full and complete answers to each item therein to the best of my knowledge, information and belief; that I will notify the County in writing of any change in circumstances occurring after the submission of this form; and that all information supplied by me is true to the best of my knowledge, information and belief. I understand that the County will rely on the information supplied in this form as additional inducement to enter into a contract with the submitting business entity.

## **CERTIFICATION**

A MATERIALLY FALSE STATEMENT WILLFULLY OR FRAUDULENTLY MADE IN CONNECTION WITH THIS QUESTIONNAIRE MAY RESULT IN RENDERING THE SUBMITTING BUSINESS ENTITY NOT RESPONSIBLE WITH RESPECT TO THE PRESENT BID OR FUTURE BIDS, AND, IN ADDITION, MAY SUBJECT THE PERSON MAKING THE FALSE STATEMENT TO CRIMINAL CHARGES.

Name of submitting business: Change Healthcare Technology Enabled Services LLC

Electronically signed and certified at the date and time indicated by:  
Scott Schrader [SCOTT.SCHRADER@CHANGEHEALTHCARE.COM]

Chief Commercial Officer  
Title

01/02/2020 01:39:33 PM  
Date

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

---

**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2019

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-38961

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**Change Healthcare Inc.**

(Exact Name of Registrant as Specified in its Charter)

---

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

82-2152098  
(I.R.S. Employer  
Identification No.)

3055 Lebanon Pike, Suite 1000  
Nashville, TN  
(Address of Principal Executive Offices)

37214  
(Zip Code)

(615) 932-3000  
(Registrant's Telephone Number, Including Area Code)

---

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.001 per share	CHNG	The Nasdaq Stock Market LLC
6.00% Tangible Equity Units	CHNGU	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Class	Outstanding as of November 11, 2019
Common Stock, \$0.001 par value	124,948,388

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**Change Healthcare Inc.**

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**Change Healthcare Inc.**  
**Condensed Statements of Operations**  
(unaudited and amounts in thousands, except share and per share amounts)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue</b>	\$ —	\$ —	\$ —	\$ —
<b>Operating expenses</b>				
General and administrative	1,138	31	1,389	62
Accretion Expense	48,363	—	48,363	—
<b>Total operating expenses</b>	<u>49,501</u>	<u>31</u>	<u>49,752</u>	<u>62</u>
<b>Operating income (loss)</b>	(49,501)	(31)	(49,752)	(62)
<b>Non-operating (income) expense</b>				
Loss from Equity Method Investment in the Joint Venture	56,179	25,571	95,732	48,337
(Gain) Loss on Sale of Interests in the Joint Venture	—	(197)	—	(661)
Management fee income	(772)	(31)	(876)	(62)
Interest expense	644	—	644	—
Interest income	(644)	—	(644)	—
Amortization of debt discount and issuance costs	212	—	212	—
Unrealized gain (loss) on forward purchase contract	2,435	—	2,435	—
<b>Total non-operating (income) expense</b>	<u>58,054</u>	<u>25,343</u>	<u>97,503</u>	<u>47,614</u>
<b>Income (loss) before income tax provision (benefit)</b>	(107,555)	(25,374)	(147,255)	(47,676)
<b>Income tax provision (benefit)</b>	<u>(13,620)</u>	<u>(6,783)</u>	<u>(15,804)</u>	<u>(11,584)</u>
<b>Net income (loss)</b>	<u>\$ (93,935)</u>	<u>\$ (18,591)</u>	<u>\$ (131,451)</u>	<u>\$ (36,092)</u>
<b>Net income (loss) per share:</b>				
Basic	<u>\$ (0.66)</u>	<u>\$ (0.25)</u>	<u>\$ (1.20)</u>	<u>\$ (0.48)</u>
Diluted	<u>\$ (0.66)</u>	<u>\$ (0.25)</u>	<u>\$ (1.20)</u>	<u>\$ (0.48)</u>
<b>Weighted average shares (see Note 5):</b>				
Basic	<u>142,223,836</u>	<u>75,506,552</u>	<u>109,111,853</u>	<u>75,555,700</u>
Diluted	<u>142,223,836</u>	<u>75,506,552</u>	<u>109,111,853</u>	<u>75,555,700</u>

See accompanying notes to condensed financial statements.

**Change Healthcare Inc.**  
**Condensed Statements of Comprehensive Income (Loss)**  
**(unaudited and amounts in thousands)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Net income (loss)</b>	<b>\$(93,935)</b>	<b>\$(18,591)</b>	<b>\$(131,451)</b>	<b>\$(36,092)</b>
<b>Other comprehensive income (loss):</b>				
Unrealized gain (loss) on available for sale debt securities of the Joint Venture, net of taxes	1,173	—	1,173	—
Changes in fair value of interest rate swap of the Joint Venture, net of taxes	(1,310)	1,478	(6,741)	2,260
Foreign currency translation adjustment of the Joint Venture	1,583	566	1,809	(2,027)
<b>Other comprehensive income (loss)</b>	<b>1,446</b>	<b>2,044</b>	<b>(3,759)</b>	<b>233</b>
<b>Total comprehensive income (loss)</b>	<b><u>\$(92,489)</u></b>	<b><u>\$(16,547)</u></b>	<b><u>\$(135,210)</u></b>	<b><u>\$(35,859)</u></b>

See accompanying notes to condensed financial statements.

**Change Healthcare Inc.**  
**Condensed Balance Sheets**  
(unaudited and amounts in thousands, except share and per share amounts)

	September 30, 2019	March 31, 2019
<b>Assets</b>		
Current Assets:		
Cash	\$ 3,409	\$ 3,409
Prepaid expenses	2,315	—
Due from the Joint Venture	1,345	373
Investment in Joint Venture tangible equity units, current	15,154	—
Income taxes receivable	1,602	1,781
Total current assets	23,825	5,563
Dividend receivable	34,547	81,264
Investment in the Joint Venture	1,826,887	1,211,996
Investment in Joint Venture tangible equity units	259,237	—
Total assets	<u>\$ 2,144,496</u>	<u>\$1,298,823</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 453	\$ 176
Due to the Joint Venture	9,513	6,167
Current portion of long-term debt	15,154	—
Total current liabilities	25,120	6,343
Long-term debt	27,384	—
Due to McKesson	48,363	—
Deferred income tax liabilities	156,770	159,993
Other liabilities	752	—
Commitments and contingencies (see Note 4)		
Stockholders' Equity:		
Common Stock (par value, \$.001), 9,000,000,000 and 252,800,000 shares authorized and 124,935,806 and 75,474,654 shares issued and outstanding at September 30, 2019 and March 31, 2019, respectively	124	75
Class X common stock (par value, \$.001), 1 and 1 share authorized and no shares issued and outstanding at September 30, 2019 and March 31, 2019, respectively	—	—
Preferred stock (par value, \$.001), 900,000,000 and 0 shares authorized and no shares issued and outstanding at September 30, 2019 and March 31, 2019, respectively	—	—
Additional paid-in capital	2,006,494	1,153,509
Accumulated other comprehensive income (loss)	(6,593)	(3,256)
Retained earnings (deficit)	(113,918)	(17,841)
<b>Total stockholders' equity</b>	<u>1,886,107</u>	<u>1,132,487</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 2,144,496</u>	<u>\$1,298,823</u>

See accompanying notes to condensed financial statements.

**Change Healthcare Inc.**  
**Condensed Statements of Stockholders' Equity**  
(unaudited and amounts in thousands, except share and per share amounts)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance at March 31, 2018</b>	75,749,118	\$ 75	\$1,139,300	\$ 34,661	\$ 2,536	\$ 1,176,572
Cumulative effect of accounting change of the Joint Venture-ASU 2017-12	—	—		(490)	490	—
Equity compensation expense	—	—	5,300	—	—	5,300
Repurchase of Change Healthcare Inc. common stock	(251,789)	—	(4,782)	—	—	(4,782)
Issuance of Change Healthcare Inc. common stock upon exercise of equity awards	4,045	—	—	—	—	—
Net income (loss)	—	—	—	(17,501)	—	(17,501)
Foreign currency translation adjustment of the Joint Venture	—	—	—	—	(2,593)	(2,593)
Change in fair value of interest rate cap, net of taxes of the Joint Venture	—	—	—	—	782	782
<b>Balance at June 30, 2018</b>	75,501,374	\$ 75	\$1,139,818	\$ 16,670	\$ 1,215	\$ 1,157,778
Equity compensation expense	—	—	2,969	—	—	2,969
Repurchase of Change Healthcare Inc. common stock	(90,629)	—	(1,720)	—	—	(1,720)
Issuance of Change Healthcare Inc. common stock upon exercise of equity awards	35,139	—	—	—	—	—
Net income (loss)	—	—	—	(18,591)	—	(18,591)
Foreign currency translation adjustment of the Joint Venture	—	—	—	—	566	566
Change in fair value of interest rate cap, net of taxes of the Joint Venture	—	—	—	—	1,478	1,478
<b>Balance at September 30, 2018</b>	75,445,885	\$ 75	\$1,141,067	\$ (1,921)	\$ 3,259	\$ 1,142,480
<b>Balance at March 31, 2019</b>	75,474,654	\$ 75	\$1,153,509	\$ (17,841)	\$ (3,256)	\$ 1,132,487
Cumulative effect of accounting change of the Joint Venture-ASC 606	—	—	—	35,797	—	35,797
Cumulative effect of accounting change of the Joint Venture-ASU 2018-02	—	—	—	(422)	422	—
Equity compensation expense	—	—	5,862	—	—	5,862
Net income (loss)	—	—	—	(37,517)	—	(37,517)
Foreign currency translation adjustment of the Joint Venture	—	—	—	—	226	226
Change in fair value of interest rate cap, net of taxes of the Joint Venture	—	—	—	—	(5,431)	(5,431)
<b>Balance at June 30, 2019</b>	75,474,654	\$ 75	\$1,159,371	\$ (19,983)	\$ (8,039)	\$ 1,131,424
Issuance of Change Healthcare Inc. common stock upon initial public offering	49,285,713	49	608,630	—	—	608,679
Effect of initial public offering issuance costs on Joint Venture equity	—	—	(4,160)	—	—	(4,160)
Issuance of tangible equity units	—	—	232,929	—	—	232,929
Equity compensation expense	—	—	8,585	—	—	8,585
Issuance of Change Healthcare Inc. common stock upon exercise of equity awards	175,439	—	1,139	—	—	1,139
Net income (loss)	—	—	—	(93,935)	—	(93,935)
Unrealized gain (loss) on available for sale debt securities of the Joint Venture	—	—	—	—	1,173	1,173
Foreign currency translation adjustment of the Joint Venture	—	—	—	—	1,583	1,583
Change in fair value of interest rate cap, net of taxes of the Joint Venture	—	—	—	—	(1,310)	(1,310)
<b>Balance at September 30, 2019</b>	124,935,806	\$ 124	\$2,006,494	\$(113,918)	\$ (6,593)	\$ 1,886,107

See accompanying notes to condensed financial statements.

**Change Healthcare Inc.**  
**Condensed Statements of Cash Flows**  
(unaudited and amounts in thousands)

	<b>Six Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$(131,451)	\$(36,092)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss from Equity Method Investment in the Joint Venture	95,732	48,337
Deferred income tax expense (benefit)	(15,806)	(11,584)
(Gain) loss on Sale of Interests in the Joint Venture	—	(661)
(Gain) loss on available for sale debt securities	2,435	—
Amortization of debt discount and issuance costs	212	—
Changes in operating assets and liabilities:		
Prepaid expenses	(2,315)	—
Due from the Joint Venture	(972)	(62)
Income taxes receivable	179	13,292
Accounts payable and accrued expenses	277	64
Due to McKesson	48,363	—
Due to the Joint Venture	3,346	(9,663)
<b>Net cash provided by (used in) operating activities</b>	<b>—</b>	<b>3,631</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of interests in Joint Venture	—	4,782
Investment in debt and equity securities of the Joint Venture	(278,875)	—
Proceeds from investment in debt and equity securities of the Joint Venture	3,621	—
Investment in the Joint Venture	(609,818)	—
<b>Net cash provided by (used in) investing activities</b>	<b>(885,072)</b>	<b>4,782</b>
<b>Cash flows from financing activities:</b>		
Proceeds from initial public offering, net of issuance costs	608,679	—
Proceeds from issuance of equity component of tangible equity units, net of issuance costs	232,929	—
Proceeds from issuance of debt component of tangible equity units	47,367	—
Payment of loan costs	(1,421)	—
Repayment of senior amortizing notes	(3,621)	—
Proceeds from exercise of equity awards	1,139	—
Payments to acquire common stock	—	(4,782)
<b>Net cash provided by (used in) financing activities</b>	<b>885,072</b>	<b>(4,782)</b>
Net increase (decrease) in cash, cash equivalents and restricted cash	—	3,631
Cash, cash equivalents and restricted cash at beginning of period	3,409	—
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 3,409</b>	<b>\$ 3,631</b>

See accompanying notes to condensed financial statements.

**Change Healthcare Inc.**  
**Notes to Condensed Financial Statements**  
**(unaudited and amounts in thousands, except share and per share amounts)**

## **1. Nature of Business and Organization**

### ***Organization***

Change Healthcare Inc. (the “Company”), a Delaware corporation, was formed on June 22, 2016 to hold an equity investment in Change Healthcare LLC (the “Joint Venture”), a joint venture between the Company and McKesson Corporation (“McKesson”). As of September 30, 2019, the Company and McKesson each owned approximately 41% and 59%, respectively, of the membership interest in the Joint Venture, subject to adjustment based on exercise of equity-based awards or other changes in the number of the Joint Venture’s membership units outstanding.

### ***The Transactions***

In June 2016, the Company, the Joint Venture, Change Healthcare Holdings, LLC, Change Healthcare Intermediate Holdings, LLC, Change Healthcare Performance, Inc. (“Legacy CHC”) and its stockholders—including affiliates of The Blackstone Group, Inc. (formerly known as the Blackstone Group L.P.) (“Blackstone”) and Hellman & Friedman LLC entered into an Agreement of Contribution and Sale (the “Contribution Agreement”) with McKesson (together with the Company, the “Members”). Under the terms of the Contribution Agreement, the parties agreed to form the Joint Venture, a joint venture that combined the majority of the McKesson Technology Solutions businesses, excluding McKesson’s Enterprise Information Solutions business and RelayHealth Pharmacy Network (such contributed businesses, “Core MTS”), with substantially all of the assets and operations of Legacy CHC, but excluding Legacy CHC’s pharmacy claims switching and prescription routing businesses (such excluded business, the “eRx Network” and the businesses contributed by Legacy CHC, together with Core MTS, the “Contributed Businesses”). The creation of the Joint Venture, including the contribution of the Contributed Businesses and related transactions, is collectively referred to as the “Transactions”. The Transactions closed on March 1, 2017.

### ***Amendment of Certificate of Incorporation***

Effective June 26, 2019 and in contemplation of its initial public offering of common stock, the Company amended its certificate of incorporation to effect a 126.4 for 1 stock split for all previously issued shares of common stock, to increase the authorized number of common stock, and to authorize shares of preferred stock. Following this amendment, the authorized shares include 9,000,000,000 shares of common stock (par value \$.001 per share), 1 share of Class X stock (par value \$.001 per share), and 900,000,000 shares of preferred stock (par value \$.001 per share). All issued or outstanding shares or related share-based payment arrangement disclosures included herein have been retrospectively adjusted for the stock split.

### ***Initial Public Offering***

Effective July 1, 2019, the Company completed its initial public offering of 49,285,713 shares of common stock and a concurrent offering of 5,750,000 of tangible equity units (“TEUs”) for net proceeds of \$608,679 and \$278,875, respectively. The proceeds of the offering of common stock were subsequently contributed to the Joint Venture in exchange for 49,285,713 additional units of the Joint Venture, which together with the Company’s existing holdings represents an approximately 41% interest in the Joint Venture. The proceeds of the offering of TEUs were used to acquire TEUs of the Joint Venture that substantially mirror the terms of the TEUs included in the offering. The Joint Venture, in turn, used the proceeds received from the Company to repay \$805,000 of its indebtedness under the Term Loan Facility without penalty in July 2019. The Joint Venture repaid an additional \$85,000 of its indebtedness under the Term Loan Facility without penalty during the three months ended September 30, 2019 for a total paydown of \$890,000.

## **2. Basis of Presentation**

### ***Principles of Consolidation***

The accompanying unaudited condensed financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”) Guidelines, Rules and Regulations and, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of results for the unaudited interim periods presented. Certain information and footnote disclosures normally included in

**Change Healthcare Inc.**  
**Notes to Condensed Financial Statements**  
**(unaudited and amounts in thousands, except share and per share amounts)**

annual financial statements prepared in accordance with GAAP have been condensed or omitted. The results of operations for the interim period are not necessarily indicative of the results to be obtained for the full fiscal year. All intercompany accounts and transactions have been eliminated in the unaudited condensed financial statements.

***Accounting Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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 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 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 financial statements. Estimates and assumptions by management affect: the carrying value of the Company's investments; the provision and benefit for income taxes and related deferred tax accounts; contingencies; and the value attributed to equity awards. Additionally, the Company's financial statements are impacted by estimates and assumptions made by management that affect the financial statements of the Joint Venture, including: 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 cap agreement obligations; measurement of the components of tangible equity units; contingent consideration; loss accruals; the carrying value of long-lived assets (including goodwill and intangible assets); the classification and measurement of assets held for sale; 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.

***Tangible Equity Units***

In connection with the initial public offering, the Company completed an offering of tangible equity units (TEUs). Each TEU comprises an amortizing note and purchase contract, both of which are freestanding instruments and separate units of account. The amortizing notes were issued at par and are classified as debt on the accompanying condensed consolidated balance sheet, with scheduled principal payments over the next twelve months reflected in current maturities of long-term debt. The purchase contracts are accounted for as prepaid forward contracts and classified as equity. The TEU proceeds and issuance costs were allocated to the amortizing notes and purchase contracts on a relative fair value basis. See Note 10 for further discussion.

***Other Investments***

The Company holds investments in tangible equity units issued by the Joint Venture with terms that substantially mirror the TEUs issued by the Company. Each TEU comprises an amortizing note and forward purchase contract, both of which are freestanding instruments and separate units of account. The Company accounts for its investment in each component at fair value. Unrealized gains and losses resulting from changes in the fair value of the investment in debt securities are included as a component of other comprehensive income. Unrealized gains and losses resulting from changes in the fair value of the investment in the equity purchase contracts are recorded in current period earnings, in accordance with ASU 2016-01. See Note 11 for further discussion.

***Recently Adopted Accounting Pronouncements***

In April 2019, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-07 on a modified retrospective basis, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Among other provisions, the measurement date for awards to nonemployees was changed from the earlier of the date at which a commitment for performance by the counterparty was reached or the date at which performance was complete under the previous guidance to the grant date under this update. Because the Company's equity-based compensation was previously subject to remeasurement at fair value each quarter under previous authoritative literature, the adoption of this update had no material direct effect on the Company's consolidated financial statements. As described in Note 7, however, the adoption of this update changed the relationship between the equity-based compensation and the accounting for the freestanding option (i.e. the Dividend receivable).

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In April 2019, the Joint Venture adopted Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which replaces most prior general and industry specific revenue recognition guidance with a principles-based comprehensive revenue recognition framework on a modified retrospective basis. Under this revised framework, a company will recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. As the Company’s operations consist principally of an investment in the Joint Venture, its financial statements reflect no revenue and, accordingly, the Company recognized no direct impact on its financial statements from the adoption of this update. However, upon adoption, the Joint Venture recognized a cumulative effect adjustment to its Members’ deficit. As a result of the impact of the adoption of ASC 606 to the Joint Venture’s Members’ equity (deficit), the Company was required to recognize a proportionate amount of this cumulative effect adjustment to its April 1, 2019 retained earnings as well. The effect is disclosed within a separate caption of the accompanying condensed statement of stockholders’ equity.

***Accounting Pronouncements Not Yet Adopted***

In June 2016, the FASB issued ASU No. 2016-13, as amended by ASU No. 2018-19, which requires that a financial asset (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This update is scheduled to be effective for the Company beginning April 1, 2021, with early adoption permitted beginning April 1, 2019. The Company is currently assessing the potential effects this update may have on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, which modifies the disclosure requirements for fair value measurements. ASU 2018-13 is effective for public companies for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for either the entire standard or only the provisions that eliminate or modify requirements. The Company is currently assessing the potential effects this update may have on its financial statement disclosures.

**3. Equity Method Investment in Change Healthcare LLC**

***Exchange of Equity Method Investments***

In connection with the Transactions, the Company exchanged its 45.615% investment in Legacy CHC for 30% of the membership units of the Joint Venture. The Joint Venture used proceeds from the issuance of debt to acquire the remaining 54.385% of Legacy CHC. The Company accounted for this exchange of investments as a non-monetary transaction at their respective carrying values. Prior to the Transactions, the investors of Legacy CHC accounted for their investments at fair value. As a result, the book basis and fair value of the Company’s investment in Legacy CHC were generally the same such that no gain was recognized as a result of the Transactions.

The fair value of the Joint Venture was determined at March 1, 2017 using a combination of the income and the market valuation approaches. Under the income approach, a discounted cash flow model (“DCF”) was used in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate expected rate of return. The discount rate used for cash flows reflects capital market conditions and the specific risks associated with the business. Under the market approach, valuation multiples of reasonably similar publicly traded companies or guideline companies are applied to the operating data of the subject business to derive the estimated fair value. These valuation approaches are considered a Level 3 fair value measurement. Fair value determination requires complex assumptions and judgment by management in projecting future operating results, selecting guideline companies for comparisons, determining appropriate market value multiples, selecting the discount rate to measure the risks inherent in the future cash flows and assessing the business’s life cycle and the competitive trends impacting the business, including considering technical, legal, regulatory, or economic barriers to entry. Any material changes in key assumptions, including failure to meet business plans, deterioration in the financial market, an increase in interest rate or an increase in the cost of equity financing by market participants within the industry or other unanticipated events and circumstances, may affect such estimates.



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***Additional Ownership Interest***

Following the initial public offering, the Company contributed the proceeds of the offering of common stock to the Joint Venture in exchange for 49,285,713 additional units of the Joint Venture, which represented approximately 11% of additional ownership interest. Resulting from the additional ownership interest acquired, the Company measured additional basis differences at July 1, 2019 based on the fair value of the Joint Venture's assets and liabilities as of the date of the initial public offering, and using valuation approaches substantially similar to those used as of the date of the Transactions.

***Equity Method Investment in Change Healthcare LLC***

The Company accounts for its investment in the Joint Venture using the equity method of accounting. During the three and six months ended September 30, 2019 and 2018, the Company recorded a proportionate share of the earnings from this investment based on its ownership percentage during each respective period, which included transaction and integration related expenses incurred by the Joint Venture and the Company's portion of basis adjustments including amortization expenses associated with equity method intangible assets. These amounts are aggregated and recorded under the caption, "Loss from Equity Method Investment in the Joint Venture" in the accompanying condensed statements of operations.

Summarized financial information of the Joint Venture is as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<b>Statement of Operations Data:</b>				
Total revenue	\$ 795,811	\$ 800,190	\$ 1,651,367	\$ 1,623,453
Cost of operations (exclusive of depreciation and amortization)	\$ 331,234	\$ 327,563	\$ 658,181	\$ 664,993
Customer postage	\$ 57,110	\$ 62,404	\$ 115,594	\$ 127,962
Net income (loss)	\$ (130)	\$ 113,440	\$ 71,785	\$ 125,946

Subsequent to the Company's initial public offering of common stock, the Company now has a publicly available indication of the value of its investment in the Joint Venture. The fair value that was derived from trading prices of the Company's common stock at September 30, 2019 indicated a potential impairment to the carrying value of its investment in the Joint Venture. Accordingly, the Company evaluated its equity method investment for an other-than-temporary impairment ("OTTI"). The Company considered various factors in determining whether an OTTI has occurred, including the Company's ability and intent to hold the investment, the trading history available, the implied EBITDA valuation multiples compared to public guideline companies, the Joint Venture's ability to achieve milestones and any notable operational and strategic changes by the Joint Venture. After the evaluation, the Company determined that an OTTI had not occurred as of September 30, 2019 nor as of the date of this quarterly report on Form 10-Q. However, the Company may experience declines in the fair value of its investment in the Joint Venture, and it may determine an impairment loss will be required to be recognized in a future reporting period. Such determination will be based on the prevailing facts and circumstances, including those related to the reported results and disclosures of the Joint Venture as well as from changes in the market price of the Company's common stock.

In the event the Company obtains a controlling interest in the Joint Venture, the Company will evaluate its investment under the guidance in ASC 805 for a business combination achieved in stages. Upon such a change in control, the Company will remeasure its investment in the Joint Venture to fair value as of the date that control is obtained and will recognize a gain or loss in its statement of operations for the difference between the carrying value and fair value of its investment.

**4. Legal Proceedings**

In the ordinary course of business, the Company may become subject to various claims and legal proceedings. The Company is not currently a defendant in any pending litigation.

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## 5. Net Income (Loss) Per Share

The following table sets forth the computation of basic net income (loss) per share of common stock for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Basic net income (loss) per share:				
Numerator:				
Net income (loss)	\$ (93,935)	\$ (18,591)	\$ (131,451)	\$ (36,092)
Denominator:				
Weighted average common shares outstanding	123,794,511	75,506,552	99,897,191	75,555,700
Minimum shares issuable under purchase contracts	18,429,325	—	9,214,662	—
	142,223,836	75,506,552	109,111,853	75,555,700
Basic net income (loss) per share	<u>\$ (0.66)</u>	<u>\$ (0.25)</u>	<u>\$ (1.20)</u>	<u>\$ (0.48)</u>

The calculation of diluted net income (loss) per share has not been presented due to the presence of a net loss for each period.

Due to their antidilutive effect, the following securities have been excluded from diluted net income (loss) per share for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Incremental shares issuable under purchase contracts	3,685,750	—	1,842,875	—
Time-Vesting Options	1,156,510	1,832,196	1,405,556	1,839,878
Restricted Stock Units	908,745	—	454,373	—

## 6. Income Taxes

The income tax benefit for the three months ended September 30, 2019 and 2018 was \$13,620 and \$6,783, respectively, which represents an effective tax rate of 12.7% and 26.7%, respectively. The income tax benefit for the six months ended September 30, 2019 and 2018 was \$15,804 and \$11,584, respectively, which represents an effective tax rate of 10.7% and 24.3%, respectively.

Fluctuations in our reported income tax rates from the statutory rate are primarily due to benefits recognized as a result of certain incentive tax credits resulting from research and experimental expenditures and discrete items recognized in the quarters.

### ***McKesson Tax Receivable Agreement***

In connection with the closing of the Transactions, the Joint Venture, subsidiaries of McKesson that serve as members of the Joint Venture (the “McK Members”), McKesson and the Company entered into a tax receivable agreement (the “McKesson Tax Receivable Agreement”). The McKesson Tax Receivable Agreement generally provides for the payment by the Joint Venture to the McK Members and it assigns 85% of the net cash tax savings realized (or, in certain circumstances, deemed to be realized) by the Company in periods ending on or after the date on which McKesson ceases to own at least 20% of the outstanding units of the Joint Venture (the “LLC Units”) as a result of (i) certain amortizable tax basis in assets transferred to the Joint Venture at the closing of the Transactions and (ii) imputed interest deductions and certain other tax attributes arising from payments under the McKesson Tax Receivable Agreement. Additionally, upon the occurrence of the first exchange of LLC Units by McKesson (or its permitted

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transferees), if any, the Company has agreed to enter into an additional tax receivable agreement with the McK Members, pursuant to which the Company would be required to pay to the relevant McK Member 85% of the net cash tax savings, if any, arising from the Company's utilization of (i) certain tax basis increases resulting from the relevant exchange and payments under such additional tax receivable agreement and (ii) imputed interest deductions. The Company may also be required to enter into and make payments under an additional tax receivable agreement with McKesson in certain circumstances.

Because payments under the McKesson Tax Receivable Agreement are contingent upon McKesson's ceasing to own at least 20% of the Joint Venture and such an event was not probable at the inception of the McKesson Tax Receivable Agreement or as of September 30, 2019, no related obligation has been reflected on the accompanying condensed balance sheet.

***Letter Agreement***

The Company, the Joint Venture, McKesson and certain of McKesson's affiliates have entered into a letter agreement relating to the Contribution Agreement (the "Letter Agreement"). The Letter Agreement addresses miscellaneous tax-related matters, including (i) technical clarifications and modifications to the manner in which the Joint Venture allocates certain items of taxable income, loss and deduction among, and calculates and makes required tax distributions to, its members, (ii) the sharing of certain contingent tax benefits and expenses not addressed by the McKesson Tax Receivable Agreement or the tax matters agreement that the Company will enter into with McKesson in connection with a spin-off or split-off transaction (or a combination of the foregoing) that McKesson may, at its election, initiate and complete that would result, among other things, in the acquisition by the Company of all of McKesson's LLC Units and the issuance by the Company to McKesson and/or McKesson's securityholders of an equal number of shares of its common stock and (iii) procedures applicable in the case of certain tax proceedings. In particular, pursuant to the terms of the Letter Agreement, McKesson may adjust the manner in which depreciation or amortization deductions in respect of assets transferred to the Joint Venture at the closing of the Transactions are allocated among the Company, McKesson and certain of McKesson's affiliates beyond minimum amounts provided in the LLC Agreement. If an amount of deductions is allocated to the Company in excess of a specified minimum threshold, the Company will be required to make cash payments to McKesson equal to 100% of the tax savings of the Company attributable to such excess deductions for any tax period ending prior to the date on which McKesson ceases to own at least 20% of the outstanding LLC Units of the Joint Venture, after which the terms of the McKesson Tax Receivable Agreement will control. At September 30, 2019, the Company has recorded a liability to McKesson equal to \$48,363, which reflects the amount payable for future tax savings the Company anticipates receiving as a result of deductions that are probable to be allocated by McKesson to the Company for the year ended March 31, 2019 and is reflected as Due to McKesson on the consolidated balance sheet.

**7. Fair Value Measurements**

The Company's assets and liabilities that are measured at fair value on a recurring basis consist of the Company's Dividend Receivable and Other Investments. The debt component of the tangible equity units issued by the Company is a Level 2 liability measured at fair value on a nonrecurring basis based on available market data and a discounted cash flow analysis (see Note 10). The tables below summarize the Dividend Receivable and Other Investments as of September 30, 2019 and March 31, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall.

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Description	Balance at September 30, 2019	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other Investments (see Note 11)	\$ 274,391	\$ —	\$ 274,391	\$ —
Dividend Receivable	34,547	—	—	34,547
Total	<u>\$ 308,938</u>	<u>\$ —</u>	<u>\$ 274,391</u>	<u>\$ 34,547</u>

Description	Balance at March 31, 2019	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other Investments (see Note 11)	\$ —	\$ —	\$ —	\$ —
Dividend Receivable	81,264	—	—	81,264
Total	<u>\$ 81,264</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 81,264</u>

The Company is entitled to receive an additional unit of the Joint Venture for each share of stock issued by the Company. In the case of equity-based awards, the requirement to receive an additional unit of the Joint Venture upon exercise of such awards represents a freestanding derivative. Because the fair value measurement of this derivative involves significant unobservable inputs, the most significant of which is the use of a levered volatility calculation of a peer group of companies, the Company has determined that it represents a Level 3 fair value measurement.

Because the freestanding derivative is directly related to the Company's equity-based compensation awards, the valuation of the derivative is determined to be consistent with the valuation of the underlying equity-based awards (although we use a current period measurement date). As with the equity-based awards, changes in the value of the derivative are generally expected to fluctuate with changes in the value of the Company's common stock.

The following table summarizes the fair value of the freestanding derivative at September 30, 2019 and March 31, 2019, respectively:

	Fair Values of Derivative Financial Instruments Asset (Liability)		
	Balance Sheet Location	September 30, 2019	March 31, 2019
Derivative financial instruments not designated as hedging instruments:			
Freestanding Option	Dividend receivable	\$ 34,547	\$ 81,264

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The following table presents a reconciliation of the fair value of the derivative for which the Company uses significant unobservable inputs:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Balance at beginning of period	\$ 48,807	\$64,338	\$ 81,264	\$59,116
Increase in fair value based on ASC 505 equity-based compensation	—	2,969	—	8,269
Settlements due to exercise of awards	(1,324)	(666)	(1,324)	(744)
Change in fair value of equity-based awards	(12,936)	—	(45,393)	—
Balance at end of period	<u>\$ 34,547</u>	<u>\$66,641</u>	<u>\$ 34,547</u>	<u>\$66,641</u>

***Other Investments***

The Company invested in a unit purchase contract and a debt instrument of the Joint Venture on terms that substantially mirror the economics of the TEUs (see Note 10). At September 30, 2019 and March 31, 2019, the Company's investment in the Joint Venture's debt securities were classified as "available-for-sale" and its investment in the Joint Venture's purchase contracts were accounted for as equity securities measured at fair value. Changes in unrealized gains and losses for the Company's investment in the Joint Venture's debt securities are recognized as adjustments to other comprehensive income (loss) while changes in unrealized gains and losses for the Company's investment in the Joint Venture's purchase contracts are recognized as adjustments to pretax income (loss). The fair value measurement of the investments is based on available market data and a discounted cash flow analysis of the Joint Venture's debt and equity securities for which the Company is investing.

***Dividend Receivable***

As the dividend receivable was initially received in connection with the contribution of assets to the Joint Venture, the initial fair value was treated as a component of the Company's contribution of assets and receipt of its Investment in the Joint Venture. During the three and six months ended September 30, 2019 and 2018, the Company recognized a decrease in the Dividend Receivable which was recorded as a component of Loss from Equity Method Investment in the Joint Venture. The result was that no net equity-based compensation related to employees of the Joint Venture was recognized in the financial statements of the Company for the three and six months ended September 30, 2019 and 2018.

Following the adoption of FASB ASUNo. 2018-07, however, the measurement of equity-based compensation generally becomes fixed at the date of grant such that the fair value of the dividend receivable is no longer correlated with the amount of equity compensation recognized. As a result, following the adoption of FASB ASU No. 2018-07, the Loss from Equity Method Investment in the Joint Venture is subject to variability associated with changes in the fair value of the equity-based awards.

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**8. Accumulated Other Comprehensive Income (Loss)**

The following is a summary of the Company's proportionate share of the Joint Venture's accumulated other comprehensive income (loss) balances, net of taxes, as of and for the three and six months ended September 30, 2019 and 2018.

	Available For Sale Debt Security	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
<b>Balance at March 31, 2018</b>	\$ —	\$ 1,268	\$ 1,268	\$ 2,536
Cumulative effect of accounting change of the Joint Venture-ASU 2017-12	—	—	490	490
Change associated with foreign currency translation	—	(2,593)	—	(2,593)
Change associated with current period hedging	—	—	1,206	1,206
Reclassification into earnings	—	—	(424)	(424)
<b>Balance at June 30, 2018</b>	\$ —	\$ (1,325)	\$ 2,540	\$ 1,215
Change associated with foreign currency translation	—	566	—	566
Change associated with current period hedging	—	—	1,866	1,866
Reclassification into earnings	—	—	(388)	(388)
<b>Balance at September 30, 2018</b>	\$ —	\$ (759)	\$ 4,018	\$ 3,259
<b>Balance at March 31, 2019</b>	\$ —	\$ (1,565)	\$ (1,691)	\$ (3,256)
Cumulative effect of accounting change of the Joint Venture-ASU 2018-02	—	—	422	422
Change associated with foreign currency translation	—	226	—	226
Change associated with current period hedging	—	—	(5,117)	(5,117)
Reclassification into earnings	—	—	(314)	(314)
<b>Balance at June 30, 2019</b>	\$ —	\$ (1,339)	\$ (6,700)	\$ (8,039)
Unrealized gain (loss) on available for sale debt securities of the Joint Venture	1,173	—	—	1,173
Change associated with foreign currency translation	—	1,583	—	1,583
Change associated with current period hedging	—	—	(1,509)	(1,509)
Reclassification into earnings	—	—	199	199
<b>Balance at September 30, 2019</b>	\$ 1,173	\$ 244	\$ (8,010)	\$ (6,593)

Effective April 1, 2018, the Joint Venture adopted FASB ASUNo. 2017-12, which significantly changed the framework by which hedge accounting is recognized, presented and disclosed in the Joint Venture's financial statements. The adoption of this update by the Joint Venture resulted in a reclassification between its accumulated other comprehensive income (loss) and accumulated earnings (deficit).

Effective April 1, 2019, the Joint Venture adopted FASB ASUNo. 2018-02, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The adoption of this update resulted in a reclassification between accumulative other comprehensive income (loss) and accumulated earnings (deficit).

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As an investor in the Joint Venture, the Company has recognized its proportionate amount of these reclassifications as presented in the table above.

## **9. Equity Based Compensation**

Effective as of the Company's initial public offering, the Company adopted the Change Healthcare Inc. 2019 Omnibus Incentive Plan (the "Omnibus Incentive Plan") pursuant to which 25.0 million shares of the Company's common stock have been reserved for issuance to employees, directors and consultants of the Company, the Joint Venture and its affiliates.

In connection with the Omnibus Incentive Plan, the Company, during the three and six months ended September 30, 2019, granted to the Joint Venture's employees and directors one or a combination of time-vesting restricted stock units (RSUs), time-vesting deferred stock units, performance stock units, and cash settled restricted stock units under vesting terms that generally vary from one to four years from the date of grant. Each of these instruments is described below.

*Restricted Stock Units ("RSUs")*—The Company granted 4,436,758 RSUs during the three and six months ended September 30, 2019. The RSUs are subject to either a graded vesting schedule over four years, or a one or four year cliff vesting schedule, depending on the terms of the specific award. Upon vesting, the RSUs are exchanged for shares of the Company's common stock.

*Performance Stock Units ("PSUs")*—The Company granted 1,079,621 PSUs during the three and six months ended September 30, 2019. The PSUs consist of two tranches, one for which the quantity of awards expected to vest varies based on the Joint Venture's compound annual revenue growth rate over a three year period in comparison to a target percentage and one for which the quantity of awards expected to vest varies based on the Joint Venture's compound annual Adjusted EBITDA growth rate over a three year period in comparison to a target percentage. The awards earned upon satisfaction of the performance conditions become vested on the fourth anniversary of the vesting commencement date of the award (i.e. continued service is required beyond the satisfaction of the performance condition prior to vesting). The Joint Venture recognizes compensation expense for the PSUs based on the number of awards that are considered probable to vest. Recognition of expense is based on the probability of achievement of performance targets and is periodically reevaluated.

*Cash Settled Restricted Stock Units ("CSRSUs")*—The Company granted 597,006 CSRSUs during the three and six months ended September 30, 2019. The CSRSUs are expected to vest ratably over three years. Upon vesting, however, the Company is required to pay cash in settlement of such CSRSUs based on their fair value at the date such CSRSUs vest.

*Deferred Stock Units ("DSUs")*—The Company granted 45,704 DSUs during the three and six months ended September 30, 2019. The DSUs vest 100% upon the one-year anniversary of the date of grant. Unlike the RSUs, however, the DSUs are exchanged for shares of the Company's common stock only following the participant's separation from service.

During the three and six months ended September 30, 2019, the Joint Venture recognized compensation expense of \$6,096 related to awards granted under the Omnibus Incentive Plan. At September 30, 2019, aggregate unrecognized compensation expense of the Joint Venture related to the awards granted under the Omnibus Incentive Plan was \$87,211.

## **10. Tangible Equity Units**

In July 2019, the Company completed its offering of 5,750,000 TEUs. Total proceeds, net of underwriting discounts, were \$278,875. Each TEU, which has a stated amount of \$50, is comprised of a stock purchase contract and a senior amortizing note due June 30, 2022. The Company allocated the proceeds from the issuance of the TEUs to equity and debt based on the relative fair values of the respective components of each TEU. The value allocated to the stock purchase contracts is reflected net of issuance costs in additional paid in capital. The value allocated to the senior amortizing notes is reflected in debt on the accompanying balance sheet, with payments expected in the next twelve months reflected in current maturities of long-term debt. Issuance costs, reflected as a reduction of the face amount of the amortizing notes, are being accreted to the face amount of the debt under the effective interest method.

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The aggregate values assigned upon issuance of the TEUs, based on the relative fair value of the respective components of each TEU, were as follows:

	Equity Component	Debt Component	Total
Price per TEU	\$ 41.7622	\$ 8.2378	\$ 50.00
Gross proceeds	240,133	47,367	287,500
Issuance costs	(7,204)	(1,421)	(8,625)
Net proceeds	<u>\$ 232,929</u>	<u>\$ 45,946</u>	<u>\$278,875</u>

Each senior amortizing note has an initial principal amount of \$8.2378 and bears interest at 5.5% per year. On each March 30, June 30, September 30 and December 30, the Company pays equal quarterly cash installments of \$0.7500 per amortizing note (except for the September 30, 2019 installment payment, which was \$0.7417 per amortizing note). Each installment constitutes a payment of interest and partial payment of principal. The carrying value and fair value of the senior amortizing notes as of September 30, 2019 was \$42,537 and \$43,896, respectively. Unless settled earlier, each purchase contract will automatically settle on June 30, 2022. The Company will deliver between a minimum of 18,429,325 shares and a maximum of 22,115,075 shares of the Company's common stock, subject to adjustment, based on the Applicable Market Value (as defined below) of the Company's common stock as described below:

- If the Applicable Market Value is greater than \$15.60 per share, holders will receive 3.2051 shares of common stock per purchase contract.
- If the Applicable Market Value is less than or equal to \$15.60 per share but greater than or equal to \$13.00 per share, the holder will receive a number of shares of the Company's common stock per purchase contract equal to \$50, divided by the Applicable Market Value; and
- If the Applicable Market Value is less than \$13.00 per share, the holder will receive 3.8461 shares of common stock per purchase contract.

The Applicable Market Value is defined as the arithmetic average of the volume weighted average price per share of the Company's common stock over the twenty consecutive trading day period immediately preceding the balance sheet date, or June 30, 2022, for settlement of the stock purchase contracts.

The TEUs have a dilutive effect on the Company's net income (loss) per share. The 18,429,325 minimum shares to be issued are included in the calculation of basic net income (loss) per share. The difference between the minimum shares and the maximum shares are potentially dilutive securities, and accordingly, are included in the Company's diluted net income (loss) per share on a pro rata basis to the extent the Applicable Market Value is higher than \$13.00 but is less than \$15.60 at period end.



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# 11. Other Investments

The proceeds of the offering of TEUs were used to acquire TEUs of the Joint Venture that substantially mirror the terms of the TEUs included in the offering. Under these mirrored arrangements, the Joint Venture is required to make cash payments or to transfer LLC Units to the Company concurrent with any cash payments or issuance of shares by the Company pursuant to the terms of its TEUs. The Company accounts for these mirror arrangements as investments in debt and equity securities.

At September 30, 2019 and March 31, 2019, the Company's investment in debt securities are classified as "available-for-sale" and its investment in forward purchase contracts are considered equity securities measured at fair value. Changes in unrealized gains and losses for the Company's debt securities are recognized as adjustments to other comprehensive income (loss) while changes in unrealized gains and losses for the Company's investment in forward purchase contracts are recognized as adjustments to pretax income (loss).

A summary of the Company's other investments at September 30, 2019 and March 31, 2019 is summarized in the tables that follow.

	September 30, 2019			Fair Value
	Amortized Costs	Unrealized Gains	Unrealized Losses	
Debt Securities (Level 2)	\$ 42,326	\$ 1,571	\$ —	\$ 43,897
Forward Purchase Contracts (Level 2)	\$ 232,929	\$ —	\$ (2,435)	230,494
				<u>\$274,391</u>
Amounts classified within current assets				15,154
Amounts classified within Other investments				<u>\$259,237</u>

	March 31, 2019			Fair Value
	Amortized Costs	Unrealized Gains	Unrealized Losses	
Debt Securities	\$ —	\$ —	\$ —	\$ —
Forward Purchase Contracts	\$ —	\$ —	\$ —	—
				<u>—</u>
Amounts classified within current assets				—
Amounts classified within Other investments				<u>\$ —</u>

Scheduled maturities of investments in debt securities at September 30, 2019 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 15,154	\$ 15,154
Due after one year through five years	27,172	28,742
Due after five years through ten years	—	—
Due after ten years	—	—
	<u>\$ 42,326</u>	<u>\$ 43,896</u>

**Change Healthcare Inc.**  
**Notes to Condensed Financial Statements**  
**(unaudited and amounts in thousands, except share and per share amounts)**

The portion of unrealized gains and losses for each period related to equity securities still held at each reporting date is calculated as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net gains and losses recognized during the period on equity securities	\$ (2,435)	\$ —	\$ (2,435)	\$ —
Less: Net gains and losses recognized during the period on equity securities sold during the period	—	—	—	—
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	<u>\$ (2,435)</u>	<u>\$ —</u>	<u>\$ (2,435)</u>	<u>\$ —</u>

## 12. Subsequent Events

### *Agreement to Sell Office Property*

In October 2019, the Joint Venture executed an agreement for the sale of its Alpharetta, GA office property for gross proceeds of approximately \$31,500. The sale is expected to be completed during the third quarter of the Joint Venture's fiscal year. While the Joint Venture expects to recognize a gain of an immaterial amount as a result of this transaction, the Company expects, as a result of the write-off of basis differences associated with this office property, to recognize a loss within its Loss from equity method investment in the Joint Venture of approximately \$14,000.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the financial condition and results of operations of Change Healthcare Inc. and Change Healthcare LLC is provided as a supplement to, and should be read in conjunction with, Change Healthcare Inc.'s and Change Healthcare LLC's audited financial statements and the accompanying notes as well as the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Change Healthcare Inc.'s Registration Statement on Form S-1 (File No. 333-230345), as well as the unaudited consolidated financial statements and the related notes presented in Part I, Item 1 of this Quarterly Report for the quarter ended September 30, 2019 ("Quarterly Report").

In addition to historical data, this discussion contains forward-looking statements about the business, operations and financial performance of Change Healthcare Inc. and Change Healthcare LLC based on current expectations that involve risks, uncertainties and assumptions. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those discussed below in "Cautionary Notice Regarding Forward-Looking Statements," and Part II, Item 1A, "Risk Factors."

References in this discussion and analysis to "Change Healthcare Inc." refer to Change Healthcare Inc. and not to any of its subsidiaries. References in this discussion and analysis to the Joint Venture refer to Change Healthcare LLC and its direct and indirect subsidiaries.

### **Recent Developments**

Effective June 26, 2019, Change Healthcare Inc.'s Registration Statement on Form S-1 for the initial public offering of 49.3 million shares of common stock and the concurrent offering of 5.75 million tangible equity units ("TEUs") was declared effective by the Securities and Exchange Commission ("SEC") and Change Healthcare Inc. subsequently amended its charter to authorize 9 billion shares of common stock and effected a 126.4 for 1 split of its common stock. Change Healthcare Inc.'s common stock and TEUs began trading the next day on the NASDAQ under the CHNG and CHNGU ticker symbols, respectively.

The offerings of common stock and TEUs were consummated on July 1, 2019 and resulted in Change Healthcare Inc. receiving net proceeds of \$608.7 million and \$278.9 million respectively, before consideration of offering costs paid subsequent to the offering from available cash. The proceeds of the offering of common stock were subsequently contributed to the Joint Venture in exchange for 49.3 million additional units of the Joint Venture, thereby resulting in an additional ownership in the Joint Venture of approximately 11%. The proceeds of the offering of TEUs were used to acquire TEUs of the Joint Venture that substantially mirror the terms of the TEUs issued by Change Healthcare Inc. in the offering. The Joint Venture, in turn, used the proceeds received from Change Healthcare Inc. to repay \$805.0 million of its indebtedness under the Term Loan Facility (as defined herein) without penalty in July 2019.

In July 2019, the Joint Venture amended its Revolving Credit Facility (as defined herein), the primary effects of which were to increase the maximum amount that can be borrowed from \$500.0 million to \$785.0 million and to extend the maturity date until March 1, 2024. In the event that the outstanding balance under the Term Loan Facility exceeds \$1.1 billion on December 1, 2023, however, amounts due, if any, under the Revolving Facility become due and payable on December 1, 2023.

### **Change Healthcare Inc.**

#### **Overview**

Change Healthcare Inc. (formerly HCIT Holdings, Inc.), a Delaware corporation, was formed on June 22, 2016 to hold an equity investment in Change Healthcare LLC, a joint venture between Change Healthcare Inc. and McKesson Corporation ("McKesson"), which we refer to as the Joint Venture. Each of Change Healthcare Inc. and McKesson holds a 50% voting interest in the Joint Venture, with equal representation on the Joint Venture's board of directors and with all major operating, investing and financial activities requiring the consent of both members. As a result, Change Healthcare Inc. accounts for this investment using the equity method of accounting.

Change Healthcare Inc. has no substantive assets apart from its investment in the Joint Venture. As a result, Change Healthcare Inc. believes the financial statements of the Joint Venture are more relevant to an investor than Change Healthcare Inc.'s financial statements as they include greater detail regarding the financial condition and results of operations of the business.

## **Key Components of Change Healthcare Inc.'s Results of Operations**

### ***Loss from Equity Method Investment in the Joint Venture***

Loss from equity method investment in the Joint Venture generally represents Change Healthcare Inc.'s proportionate share of the income or loss from this investment, including basis adjustments related to amortization expense associated with equity method intangible assets, property and equipment, deferred revenue and other items.

Loss from equity method investment in the Joint Venture was \$56.2 million and \$25.6 million for the three months ended September 30, 2019 and 2018, respectively. The loss from equity method investment in the Joint Venture increased as a result of incremental basis difference amortization due to the additional units of the Joint Venture that were acquired using the proceeds of the initial public offering, combined with lower operating profits at the Joint Venture in the current quarter when compared to the same quarter in the prior year, primarily due to the gain recognized from the sale of the Joint Venture's extended care business during the three months ended September 30, 2018.

Loss from equity method investment in the Joint Venture was \$95.7 million and \$48.3 million for the six months ended September 30, 2019 and 2018, respectively. The loss from equity method investment in the Joint Venture for the six months ended September 30, 2019 was discretely affected by the Joint Venture's adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 606 ("ASC 606") and Change Healthcare Inc.'s adoption of FASB Accounting Standards Update No. 2018-07 ("ASU 2018-07"). The loss from equity method investment in the Joint Venture was decreased by approximately \$17.0 million as a result of the continuing effect of the adoption of ASC 606 and was increased by approximately \$45.4 million as a result of changes in the fair value of its dividend receivable following the adoption of ASU 2018-07.

### ***General and Administrative Expense and Management Fees***

In addition to its income (loss) from its equity method investment in the Joint Venture, Change Healthcare Inc. may also periodically incur certain other operating expenses, including professional service fees, general liability insurance, and other fees associated with being an SEC registrant.

To the extent any such fees Change Healthcare Inc. incurs are required to facilitate or maintain its status as a public company, however, the limited liability company agreement of the Joint Venture (the "LLC Agreement") contemplates that Change Healthcare Inc. be reimbursed for such costs by the Joint Venture. Such reimbursements are classified as management fees within Change Healthcare Inc.'s statements of operations.

### ***Gain (Loss) on Sale of Interests in the Joint Venture***

Under the terms of the LLC Agreement, Change Healthcare Inc. and the Joint Venture agreed to cooperate to ensure a 1:1 ratio of outstanding shares of common stock of Change Healthcare Inc. to the units of the Joint Venture ("LLC Units") held by Change Healthcare Inc. as long as the subsidiaries of McKesson that serve as members of the Joint Venture (the "McK Members") hold LLC Units. This provision requires that Change Healthcare Inc. be issued an additional LLC Unit for each share of common stock that Change Healthcare Inc. issues. Similarly, for any share that Change Healthcare Inc. repurchases, the Joint Venture is likewise required to repurchase a respective LLC Unit from Change Healthcare Inc. In this latter case, the repurchase by the Joint Venture of LLC Unit(s) from Change Healthcare Inc. results in a gain or loss to Change Healthcare Inc. equal to the difference in the fair value of such LLC Units and the proportionate carrying value of Change Healthcare Inc.'s investment in the Joint Venture associated with such repurchased LLC Units.

### ***Income Taxes***

As the Joint Venture is treated as a partnership for income tax purposes, Change Healthcare Inc. is subject to income taxes for its allocable portion of the Joint Venture's taxable income. The income tax benefit was \$13.6 million and \$6.8 million (which resulted in effective income tax rates of 12.7% and 26.7%) for the three months ended September 30, 2019 and 2018, respectively. The income tax benefit was \$15.8 million and \$11.6 million (which resulted in effective income tax rates of 10.7% and 24.3%) for the six months ended September 30, 2019 and 2018, respectively.

In connection with the closing of the Transactions, the Joint Venture, subsidiaries of McKesson that serve as members of the Joint Venture (the "McK Members"), McKesson and the Company entered into a tax receivable agreement (the "McKesson Tax Receivable Agreement"). Additionally, the Company, the Joint Venture, McKesson and certain of McKesson's affiliates have entered into a letter agreement relating to the Contribution Agreement (the "Letter Agreement"). The McKesson Tax Receivable Agreement and the Letter Agreement contemplate payments from the Company to the McK Members or to McKesson based upon certain criteria

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as outlined in Note 6, *Income Taxes*. In the three months ended September 30, 2019 the Company has recorded a liability to McKesson equal to \$48.4 million, which reflects the amount payable for future tax savings the Company anticipates receiving as a result of deductions that are probable to be allocated by McKesson to the Company for the year ended March 31, 2019.

### **Liquidity and Capital Resources**

#### ***Overview***

Change Healthcare Inc.'s principal source of liquidity consists of distributions or advances from the Joint Venture. To the extent that Change Healthcare Inc. requires additional funds, Change Healthcare Inc. may need to raise funds through subsequent debt or equity financing.

Change Healthcare Inc. has not incurred, nor does it expect to incur, significant capital expenditures in the normal course of business or to pursue acquisition opportunities other than through the Joint Venture.

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

As of September 30, 2019, Change Healthcare Inc. had no off-balance sheet arrangements.

### **Recent Accounting Pronouncements**

See Note 2, *Basis of Presentation*, within Change Healthcare Inc.'s financial statements appearing elsewhere in this Quarterly Report for information about recent accounting pronouncements and the potential impact on Change Healthcare Inc.'s financial statements.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with United States generally accepted accounting principles ("GAAP") requires Change Healthcare Inc. to make estimates and assumptions that affect reported amounts and related disclosures. Change Healthcare Inc. considers 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 Change Healthcare Inc.'s results of operations and financial condition.

As disclosed in Note 2, *Summary of Significant Accounting Policies*, in Change Healthcare Inc.'s Registration Statement on Form S-1 (333-230345), Change Healthcare Inc. evaluates its equity method investment for impairment review whenever an event or change in circumstances occurs that may have a significant adverse impact on the carrying value of the investment. If a loss in value occurs that is deemed to be other than temporary, an impairment loss would be recognized.

Subsequent to the IPO, Change Healthcare Inc. now has a publicly available indication of the value of its investment in the Joint Venture. Accordingly, Change Healthcare Inc. evaluated its equity method investment for an other-than-temporary impairment ("OTTI"). Change Healthcare Inc. considered various factors in determining whether an OTTI had occurred, including Change Healthcare Inc.'s ability and intent to hold the investment, the trading history available, the implied EBITDA valuation multiples compared to public guideline companies, and the Joint Venture's ability to achieve milestones and any operational and strategic changes by the Joint Venture that might have negatively impacted the fair value. After the evaluation, Change Healthcare Inc. determined that an OTTI had not occurred as of September 30, 2019 or as of the date of this quarterly report on Form 10-Q. However, the Joint Venture may experience declines in its fair value, and Change Healthcare Inc. may determine an impairment loss will be required to be recognized in a future reporting period. Such determination will be based on the prevailing facts and circumstances, including those related to the reported results and disclosures of the Joint Venture, as well as from changes in the market price of Change Healthcare Inc.'s common stock.

Change Healthcare Inc.'s investments in the debt and equity securities of the Joint Venture are reported at fair value. The measurement of these investments is impacted by changes in market interest rates, as well as factors that impact the underlying value of the Joint Venture's equity. See Note 11 for further discussion.

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Change Healthcare Inc. believes the current assumptions and other considerations used to estimate amounts reflected in Change Healthcare Inc.'s financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in Change Healthcare Inc.'s financial statements, the resulting changes could have a material adverse effect on Change Healthcare Inc.'s results of operations and financial condition.

See Note 2, *Summary of Significant Accounting Policies*, within Change Healthcare Inc.'s financial statements appearing in the Registration Statement on Form S-1 (333-230345) for information about Change Healthcare Inc.'s other critical accounting policies.

### **Quantitative and Qualitative Disclosure of Market Risk**

As Change Healthcare Inc. has no substantive assets or operations apart from its investment in the Joint Venture, Change Healthcare Inc. does not believe that it has significant market risk.

### **Summary Disclosures about Contractual Obligations and Commercial Commitments**

During the three months ended September 30, 2019, Change Healthcare Inc. issued TEUs comprised of a stock purchase contract and a senior amortizing note due June 30, 2022. See Note 10, *Tangible Equity Units*. Change Healthcare Inc. has no other ongoing contractual obligations or commercial commitments as of September 30, 2019.

## **Change Healthcare LLC**

### **Overview**

The Joint Venture is a leading independent healthcare technology company, formed through the combination of substantially all of the businesses of Change Healthcare Performance, Inc. (formerly Change Healthcare, Inc.) ("Legacy CHC") and a majority of the McKesson Technology Solutions business ("Core MTS"), which was completed on March 1, 2017. The Joint Venture offers a comprehensive suite of software, analytics, technology enabled services and network solutions that drive improved results in the complex workflows of healthcare system payers and providers. The Joint Venture's solutions are designed to improve clinical decision making, simplify billing, collection and payment processes and enable a better patient experience.

The Joint Venture offers comprehensive end-to-end solutions with modular capabilities to address its customers' needs. Working with its customers to analyze workflows before, during and after care has been delivered to patients, the Joint Venture designs and commercializes innovative solutions for various points in the healthcare delivery timeline. The Joint Venture's offerings range from discrete data and analytics solutions to broad enterprise-wide solutions, which include workflow software and technology-enabled services that help its customers achieve their operational objectives.

The Joint Venture's Intelligent Healthcare Network was created to facilitate the transfer of data among participants and is one of the largest clinical and financial healthcare networks in the United States. In the fiscal year ended March 31, 2018, Change Healthcare facilitated nearly 14 billion healthcare transactions and approximately \$1 trillion in adjudicated claims or approximately one-third of all U.S. healthcare expenditures. The Joint Venture serves the vast majority of U.S. payers and providers. The Joint Venture's customer base includes approximately 2,200 government and commercial payer connections, 900,000 physicians, 118,000 dentists, 33,000 pharmacies, 5,500 hospitals and 600 laboratories. This network transacts clinical records for over 112 million unique patients, more than one-third of the estimated total U.S. population. With insights gained from its pervasive network, extensive applications and analytics portfolio and its services operations, the Joint Venture has designed analytics solutions that include industry-leading and trusted franchises supported by extensive intellectual property and regularly updated content.

In addition to the advantages of scale, the Joint Venture believes it offers the collaborative benefits of a mission-critical partner. The Joint Venture seeks enduring relationships with each customer through solutions embedded in their complex daily workflows that deliver measurable results. The Joint Venture's customer retention rate for its top 50 provider and top 50 payer customers for the fiscal year ended March 31, 2019 was 100%. The Joint Venture believes its size, scale, thought leadership and prevalence across the healthcare ecosystem help make it a preferred partner for innovative technology companies and industry associations focused on driving standardization and efficiencies in the healthcare industry.

### **Segments**

The Joint Venture reports its financial results in the following three reportable segments: Software and Analytics, Network Solutions and Technology-Enabled Services.

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- Software and Analytics provides software and analytics solutions for financial performance, payment accuracy, clinical decision management, value-based payment, provider and consumer engagement and imaging and clinical workflow.
- Network Solutions enables financial, administrative and clinical transactions, electronic business-to-business and consumer-to-business payments and aggregation and analytics of clinical and financial data.
- Technology-Enabled Services provides solutions for financial and administrative management, value-based care, communication and payment, pharmacy benefits administration and healthcare consulting.

In April 2019, the Joint Venture made certain changes in the way that it manages its business and allocates costs. Specifically, the Joint Venture made the following changes:

- Moved its consumer payments solution from the Network Solutions reportable segment to the Technology-enabled Services reportable segment.
- Moved its consumer engagement solutions from the Software and Analytics reportable segment to the Network Solutions reportable segment.
- Made certain changes in the way that costs are assigned to reportable segments.

The presentation of revenue and Adjusted EBITDA included within this management's discussion and analysis of financial condition and results of operations has been retrospectively adjusted for all periods presented to reflect the above described changes.

### **Factors Affecting Change Healthcare's Results of Operations**

The following are certain key factors that affect, will affect, or have recently affected, the Joint Venture's results of operations:

#### ***Post-Contribution Cost Synergies***

In connection with the Transactions, the Joint Venture identified opportunities to implement certain cost synergies based on its analyses of existing operating structures, estimated spend by category, its resource requirements and industry benchmarks for similar activities. The Joint Venture expects such cost synergies to include, among others, (i) product integration, network efficiencies and combining common products; (ii) procurement savings from the elimination of duplicate orders, leveraging scale and optimization of providers; (iii) utilization of global talent; and (iv) reduction of management redundancies and duplicative roles.

By the end of the fourth year following the combination of Legacy CHC and Core MTS, the Joint Venture expects to have implemented operational initiatives to fully realize these synergies, which are expected to result in significant annual run-rate cost savings and efficiencies. The Joint Venture has incurred significant non-recurring expenses and expects to continue to incur such expenses in order to achieve these cost synergies.

#### ***Macroeconomic and Industry Trends***

The healthcare industry is highly regulated and subject to frequently changing complex regulatory and other requirements. For example, ongoing healthcare reform has significantly affected the healthcare regulatory environment by changing how healthcare services are covered, delivered and reimbursed through coverage expansion, reduced federal healthcare program spending, increased efforts to link federal healthcare program payments to quality and efficiency and insurance market reforms. The number of states that will ultimately participate in some form of Medicaid expansion and the future of mandated coverage for individuals is not yet clear. If the Patient Protection and Affordable Care Act (collectively, the "ACA") is repealed or significantly modified, such repeal or modification, any alternative reforms adopted in its place or the failure to adopt alternative reforms may have a material impact on the Joint Venture's business. For example, since many of the Joint Venture's products and services include solutions designed to assist customers in effectively navigating the shift to value-based healthcare, the elimination of, or significant reductions to, the ACA's various value-based healthcare initiatives may adversely impact the Joint Venture's business. While the specific regulatory instruments and tactics used to implement reform may change in the future, the Joint Venture expects that the pervasive focus on improving coverage, efficiency and quality and related needs for payers and providers to optimize performance and reduce costs will continue.

### ***Revenue Convergence***

In April 2019, the Joint Venture adopted Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which replaces most prior general and industry specific revenue recognition guidance with a principles-based comprehensive revenue recognition framework.

The Joint Venture adopted ASC 606 using the modified retrospective transition method applied only to contracts that were not completed as of the date of initial application. The adoption of ASC 606 resulted in a cumulative effect adjustment to reduce members’ equity (deficit) as of April 1, 2019 by \$159.9 million. After assessing all potential impacts of adopting the new standard on its consolidated financial statements, related disclosures, and necessary control and process changes, the Joint Venture noted the following to be the most notable impacts of adopting the new standard:

- Revenue for certain contingent fee service arrangements will be accelerated as revenue for these arrangements is recognized as the services are performed.
- Revenue related to certain time-based software and content license agreements will be accelerated. The license component for certain time-based software will be recognized upon delivery to the customer (“point in time”), or in the case of software that requires significant production, modification or customization, recognized as the implementation work is performed. A non-license component (e.g., technical support) will be recognized over the respective contract terms (“over time”).
- Incremental costs to obtain contracts and qualifying costs to fulfill will be capitalized and amortized over the period of benefit. The net result of this change was an increase to capitalized contract costs on the balance sheet; these capitalized costs will be amortized and recognized as expense over an incrementally longer period of time.

Refer to Note 2, *Basis of Presentation*, in the unaudited condensed financial statements of the Joint Venture included as Exhibit 99.1 to this Quarterly Report for a full description of the impact of the adoption of ASC 606 on the Joint Venture’s financial statements.

### ***Equity-based Compensation***

Change Healthcare Inc. grants equity-based awards of Change Healthcare Inc. common stock to certain employees, officers and directors of Change Healthcare Inc. and the Joint Venture. For grants to employees, equity-based awards are generally measured at the date of grant and recognized as expense over each employee’s service period. Because the Joint Venture’s employees are not considered employees of Change Healthcare Inc., however, prior to the adoption of FASB ASU No. 2018-07 on April 1, 2019, the Joint Venture was generally required to measure these equity-based awards at fair value each quarter until the earlier of the completion of required service or the performance commitment date. As a result, the Joint Venture’s results of operations have historically reflected volatility from the periodic re-measurement of its equity-based awards.

In April 2019, the Joint Venture adopted FASB ASU No. 2018-07, the effect of which is to require that equity awards to non-employees be treated similarly to awards to employees. As a result, the Joint Venture expects to significantly lessen the volatility on equity-based compensation that has historically resulted from changes in the fair value of the underlying stock of Change Healthcare Inc., stock price volatility among its peer companies, changes in interest rates and the passage of time.

In connection with the initial public offering, the Board of Directors adopted, and the stockholders approved, the Change Healthcare Inc. 2019 Omnibus Incentive Plan (the “Omnibus Incentive Plan”), which became effective as of the date of the IPO. The purpose of our Omnibus Incentive Plan is to provide a means through which to attract and retain key personnel and to provide a means whereby our directors, officers, employees, consultants and advisors (and those of the Joint Venture and its subsidiaries) can acquire and maintain an equity interest in us or be paid incentive compensation. The Omnibus Incentive Plan allows us to implement a new market-based long-term incentive program to align our executive compensation package with similarly situated public companies.

As part of the 2019 Omnibus Incentive Plan, the Board of Directors may, from time to time, grant awards to one or more eligible persons. All awards granted under the Plan shall vest and become exercisable in such manner and on such dates or upon such events as determined by the Board of Directors, including attainment of performance conditions. Each award granted under the Omnibus Incentive Plan shall be evidenced by an award agreement, which agreement need not be the same for each participant.

Refer to Note 11, *Equity Based Compensation*, in the unaudited condensed financial statements of the Joint Venture included as Exhibit 99.1 to this Quarterly Report for a full description of the new awards included in the long-term incentive program.



### ***Acquisitions and Divestitures***

The Joint Venture actively evaluates opportunities to improve and expand its business through targeted acquisitions that are consistent with its strategy. On occasion, the Joint Venture also may dispose of certain components of its business that no longer fit within its overall strategy. Because of the Joint Venture's acquisition and divestiture activity, as well as the shifting revenue mix of its business due to this activity, the Joint Venture's results of operations may not be directly comparable among periods.

In July 2018, certain of the Joint Venture's affiliates sold all of the membership interests in the Joint Venture's extended care business (a component of the software and analytics reportable segment) for net cash proceeds of \$159.9 million.

### ***Income Taxes***

The Joint Venture's effective income tax rate is affected by several factors. The following table and subsequent commentary reconciles the Joint Venture's federal statutory rate to its effective income tax rate and the subsequent commentary describes the more significant of the reconciling factors:

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Statutory U.S. federal tax rate	21.00%	21.00%
State income taxes (net of federal benefit)	0.13	(0.04)
Income passed through to Members	(16.39)	(21.15)
Change in valuation allowance	(4.58)	0.05
Research and development credits (net of uncertain tax positions)	(2.29)	(2.83)
Return to provision adjustments	1.29	0.14
Other	4.29	1.03
Effective income tax rate	<u>3.45%</u>	<u>(1.80)%</u>

*State Income Taxes*—The Joint Venture's effective tax rate for state income taxes is generally impacted by changes in its apportionment.

*Income Passed through to Members*—Certain of the Joint Venture's subsidiaries are organized as limited liability corporations and report income that is distributed to the Members where it is subject to income taxes.

*Change in tax liability on outside basis difference of foreign subsidiary*—The Joint Venture records tax expense or benefit related to undistributed earnings in a foreign subsidiary for the change in the amount of excess of book basis over tax basis in the subsidiary.

*Change in Valuation Allowance*—The Joint Venture records valuation allowances or reverses existing valuation allowances related to assumed future income tax benefits depending on circumstances and factors related to its business. During the six months ended September 30, 2019, the Joint Venture released a valuation allowance related to prior deferred tax assets as a result of its change in judgment resulting from forecasted earnings and tax planning strategies that provide for future taxable income in the relevant jurisdictions.

*Research and development credits (net of uncertain tax position liability)*—The Joint Venture records credits against income taxes for certain research and development expenditures in the U.S. and Canada net of the portion that is estimated to be included in Change Healthcare Inc.'s unrecognized tax benefits.

### ***Qualified McKesson Exit***

In connection with a Qualified McKesson Exit, we anticipate that Change Healthcare Inc. will acquire the interest in the Joint Venture that it did not own prior to such transaction. As a result, in periods following the Qualified McKesson Exit, Change Healthcare LLC is expected to be a wholly-owned subsidiary of Change Healthcare Inc., and Change Healthcare Inc. will consolidate the financial position and results of Change Healthcare LLC in its financial statements.

Change Healthcare Inc. expects to account for the Qualified McKesson Exit and related transactions as a business combination achieved in stages in accordance with the FASB Accounting Standards Codification Business Combinations Topic, resulting in a new basis of accounting. As a result, Change Healthcare Inc. will be required to remeasure its investment in the Joint Venture to fair value as of the date that control is obtained and will recognize a gain or loss in its statement of operations for the difference in the carrying value and fair value of this investment. Further, Change Healthcare Inc. expects to recognize the consideration transferred, as well as the acquired business's 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 anticipated to be recorded as goodwill. Any excess of the fair value of the identifiable assets acquired and liabilities assumed over the consideration transferred, if any, would generally be recognized within earnings as of the acquisition date.

As a result of the accounting for these transactions and the anticipated change in basis of accounting, the consolidated results of Change Healthcare Inc. in periods following the Qualified McKesson Exit will not be comparable to the consolidated results of the Joint Venture in periods prior to the Qualified McKesson Exit. The following are certain of the more significant changes resulting from the Qualified McKesson Exit that are expected to affect the comparability of financial results and operations:

- Gain or loss upon remeasuring Change Healthcare Inc.'s investment in the Joint Venture at its fair value.
- Increased tangible and intangible assets resulting from adjusting the basis of tangible and intangible assets to their fair value which is expected to result in increased depreciation and amortization expense.
- Potential increase or decrease in long-term debt as a result of adjustments to state the long-term debt at its fair value. Resulting differences in the historical carrying value and fair value of the long-term debt are expected to result in either additional discount or premium which, in turn, may materially increase or decrease future interest expense.
- Decreased deferred revenue as a result of recognizing deferred revenue in the business combination only to the extent that contractual obligations remain to be fulfilled at that time. Decreases in deferred revenue are expected to result in decreased solutions revenue in the near term.
- Income currently attributable to the Joint Venture and not subject to U.S. federal income taxes and most state and local income taxes will become subject to such taxes, resulting in an expected increase in Change Healthcare Inc.'s effective tax rate compared with the historical effective tax rate of the Joint Venture.

### **Results of Operations**

The Joint Venture adopted the new revenue recognition accounting standard, ASC 606, effective April 1, 2019 on a modified retrospective basis. Its results of operations as presented within the following discussion and analysis includes financial results for reporting periods during fiscal 2020, which are disclosed in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to fiscal 2020 have not been retroactively restated and are presented in conformity with amounts previously disclosed under the prior revenue recognition standard, ASC 605. The Joint Venture has included additional information regarding the impacts from the adoption of the new revenue recognition standard for the three and six months ended September 30, 2019 and included financial results during fiscal 2020 under ASC 605 for comparison to the prior year.

The following table summarizes our consolidated results of operations for the three months ended September 30, 2019 and 2018, respectively:

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(in millions)	Three Months Ended September 30,						Six Months Ended September 30,					
	2019		2018		\$	%	2019		2018		\$	%
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	Change	Change	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	Change	Change
<b>Revenue</b>												
Solutions revenue	\$ 738.7	\$ 9.9	\$ 748.6	\$ 737.8	\$ 10.8	1.5%	\$1,535.8	\$ (31.6)	\$ 1,504.2	\$ 1,495.5	\$ 8.7	0.6%
Postage revenue	57.1	—	57.1	62.4	(5.3)	(8.5)	115.6	—	115.6	128.0	(12.4)	(9.7)
<b>Total revenue</b>	<b>795.8</b>	<b>9.9</b>	<b>805.7</b>	<b>800.2</b>	<b>5.5</b>	<b>0.7</b>	<b>1,651.4</b>	<b>(31.6)</b>	<b>1,619.8</b>	<b>1,623.5</b>	<b>(3.7)</b>	<b>(0.2)</b>
<b>Operating expenses</b>												
Costs of operations (exclusive of depreciation and amortization below)	331.2	1.0	332.2	327.6	4.6	1.4	658.2	1.8	660.0	665.0	(5.0)	(0.8)
Research and development	51.8	—	51.8	51.2	0.6	1.2	101.1	—	101.1	106.6	(5.5)	(5.2)
Sales, marketing, general and administrative	190.0	4.6	194.6	207.1	(12.5)	(6.0)	383.3	9.8	393.1	414.0	(20.9)	(5.0)
Customer postage	57.1	—	57.1	62.4	(5.3)	(8.5)	115.6	—	115.6	128.0	(12.4)	(9.7)
Depreciation and amortization	77.4	—	77.4	69.3	8.1	11.7	148.8	—	148.8	137.8	11.0	8.0
Accretion and changes in estimate with related parties, net	3.2	—	3.2	5.9	(2.7)	(45.8)	7.1	—	7.1	9.8	(2.7)	(27.6)
Gain on sale of the Extended Care Business	—	—	—	(111.4)	111.4	(100.0)	—	—	—	(111.4)	111.4	(100.0)
<b>Total operating expenses</b>	<b>710.7</b>	<b>5.6</b>	<b>716.3</b>	<b>612.1</b>	<b>104.2</b>	<b>17.0</b>	<b>1,414.1</b>	<b>11.6</b>	<b>1,425.7</b>	<b>1,349.8</b>	<b>75.9</b>	<b>5.6</b>
<b>Operating income</b>	<b>85.1</b>	<b>4.3</b>	<b>89.4</b>	<b>188.1</b>	<b>(98.7)</b>	<b>(52.5)</b>	<b>237.3</b>	<b>(43.2)</b>	<b>194.1</b>	<b>273.7</b>	<b>(79.6)</b>	<b>(29.1)</b>
<b>Non-operating (income) and expense</b>												
Interest expense	69.9	—	69.9	80.7	(10.8)	(13.4)	153.3	—	153.3	159.2	(5.9)	(3.7)
Loss on extinguishment of debt	16.9	—	16.9	—	16.9		16.9	—	16.9	—	16.9	
Contingent consideration	1.7	—	1.7	(0.1)	1.8	(1,800.0)	0.9	—	0.9	0.2	0.7	350.0
Other, net	(4.4)	—	(4.4)	(3.8)	(0.6)	15.8	(8.2)	—	(8.2)	(9.4)	1.2	(12.8)
<b>Non-operating (income) and expense</b>	<b>84.1</b>	<b>—</b>	<b>84.1</b>	<b>76.8</b>	<b>7.3</b>	<b>9.5</b>	<b>162.9</b>	<b>—</b>	<b>162.9</b>	<b>150.0</b>	<b>12.9</b>	<b>8.6</b>
<b>Income (loss) before income tax provision (benefit)</b>	<b>1.0</b>	<b>4.3</b>	<b>5.3</b>	<b>111.3</b>	<b>(106.0)</b>	<b>(95.2)</b>	<b>74.4</b>	<b>(43.2)</b>	<b>31.2</b>	<b>123.7</b>	<b>(92.5)</b>	<b>(74.8)</b>
<b>Income tax provision (benefit)</b>	<b>1.0</b>	<b>—</b>	<b>1.0</b>	<b>(2.1)</b>	<b>3.1</b>	<b>(147.6)</b>	<b>2.6</b>	<b>(2.3)</b>	<b>0.3</b>	<b>(2.2)</b>	<b>2.5</b>	<b>(113.6)</b>
<b>Net income (loss)</b>	<b>\$ 0.0</b>	<b>\$ 4.3</b>	<b>\$ 4.3</b>	<b>\$ 113.4</b>	<b>\$ (109.1)</b>	<b>(96.2)%</b>	<b>\$ 71.8</b>	<b>\$ (40.9)</b>	<b>\$ 30.9</b>	<b>\$ 125.9</b>	<b>\$ (95.0)</b>	<b>(75.5)%</b>

As a result of displaying amounts in millions, rounding differences may exist in the table above.

### Three Months Ended September 30, 2019 (ASC 605 Basis) Compared to Three Months Ended September 30, 2018

#### Solutions Revenue

Solutions revenue increased \$10.8 million for the three months ended September 30, 2019, compared with the same period in the prior year. Factors affecting the Joint Venture's solutions revenue are described in the various segment discussions below.

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### *Expenses*

#### Costs of Operations (Exclusive of Depreciation and Amortization)

Costs of operations (exclusive of depreciation and amortization) increased \$4.6 million for the three months ended September 30, 2019, compared with the same period in the prior year. The increase in the Joint Venture's costs of operations is primarily attributable to an increase in information technology maintenance and data and communications costs.

#### Research and Development

Research and development expenses increased \$0.6 million for the three months ended September 30, 2019, compared with the same period in the prior year. The increase is primarily attributable to increases in investments, offset by synergies associated with reduction or elimination of duplicative roles.

#### Sales, Marketing, General and Administrative

Sales, marketing, general and administrative expenses decreased \$12.5 million for the three months ended September 30, 2019, compared with the same period in the prior year. Sales, marketing, general and administrative expense for each of the three months ended September 30, 2019 and 2018 reflects significant integration related costs, including professional and consulting fees related to rationalizations of information technology, business process re-engineering, implementation of human resource and finance information technology systems, severance and other costs. The amount of such costs, however, decreased by \$8.5 million in the three months ended September 30, 2019 as compared to the same period in the prior year.

#### Customer Postage

Customer postage decreased \$5.3 million for the three months ended September 30, 2019, compared with the same period in the prior year. Customer postage is affected by the declines in print volumes within communication and payment solutions, which were partially offset by the effect of a USPS postage rate increase in January 2019 (e.g. an increase in first-class postage of 10%). Because customer postage is a pass-through cost to the Joint Venture's customers, however, changes in volume of customer postage generally have no effect on operating income.

#### Depreciation and Amortization

Depreciation and amortization increased \$8.1 million for the three months ended September 30, 2019, compared with the same period in the prior year. Depreciation and amortization were generally affected by routine amortization of tangible and intangible assets existing at March 31, 2019 as well as the routine amortization and depreciation of additions to property, equipment, and software since that date.

#### Accretion and changes in estimate with related parties, net

Accretion and changes in estimate with related parties, net decreased \$2.7 million for the three months ended September 30, 2019, compared with the same period in the prior year. Accretion is routinely affected by changes in the expected timing or amount of cash flows which may result from various factors, including changes in tax rates and McKesson's discretionary allocation of deductions under the terms of the Letter Agreement.

#### Interest expense

Interest expense decreased \$10.8 million for the three months ended September 30, 2019, compared with the same period in the prior year. This decrease is primarily attributable to the repayment of approximately \$805.0 million of variable interest rate debt in July 2019 from the proceeds of the initial public offering and an additional repayment of \$85.0 million during the three months ended September 30, 2019. The Joint Venture has interest rate cap agreements in place to limit its exposure to rising interest rates, and such agreements together with the Joint Venture's fixed rate notes effectively fixed interest rates for approximately 59% of the Joint Venture's total indebtedness at September 30, 2019.

#### Loss on Extinguishment of Debt

Loss on extinguishment of debt for the three months ended September 30, 2019 of \$16.9 million includes a loss of \$15.8 million related to the unamortized discounts and debt issuance costs associated with the total repayment of \$890.0 million on the Term Loan Facility, as well as a loss of \$1.1 million due to the deemed extinguishment associated with the amendment of the Revolving Credit Facility.

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### Contingent consideration

Contingent consideration reflects changes in the fair value of the Joint Venture's earnout obligation to the former owners of an acquired business. Such amounts may increase or decrease in the future based on changes in the expected amount, timing, and probability of making such payments in the future.

### Other, net

Other, net primarily represents income the Joint Venture receives from McKesson and eRx Network related to transitional and other services that we provide them following the closing of the Transactions in March 2017.

### Income Tax Provision (Benefit)

The income tax provision was \$1.0 million (effective tax rate of 115.0%) for the three months ended September 30, 2019 as compared to an income tax benefit of \$2.1 million (effective tax rate of -1.9%) for the three months ended September 30, 2018. The Joint Venture's income taxes and related effective tax rate are routinely affected by it and its subsidiaries' legal organization. Certain of the Joint Venture's subsidiaries are organized as limited liability corporations and report income that is distributed to the Members where it is subject to income taxes. Other subsidiaries are organized as corporations, for which the tax effects are directly reflected in the Joint Venture's financial statements.

### **Solutions Revenue and Adjusted EBITDA**

	Three Months Ended September 30,					
	2019			2018		
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	\$ Change	% Change
(in millions)						
<b>Solutions revenue (1)</b>						
Software and Analytics	\$ 376.1	\$ 13.2	\$ 389.3	\$ 383.5	\$ 5.8	1.5%
Network Solutions	\$ 144.3	\$ —	\$ 144.3	\$ 136.3	\$ 8.0	5.9%
Technology-enabled Services	\$ 244.1	\$ (3.2)	\$ 240.9	\$ 243.3	\$ (2.4)	(1.0)%
<b>Adjusted EBITDA</b>						
Software and Analytics	\$ 140.1	\$ 8.8	\$ 148.9	\$ 139.4	\$ 9.5	6.8%
Network Solutions	\$ 86.5	\$ (0.4)	\$ 86.1	\$ 83.6	\$ 2.5	3.0%
Technology-enabled Services	\$ 44.8	\$ (3.8)	\$ 41.0	\$ 39.2	\$ 1.8	4.6%

(1) Includes inter-segment revenue

As a result of displaying amounts in millions, rounding differences may exist in the tables above.

### Software and Analytics

Software and Analytics revenue increased \$5.8 million for the three months ended September 30, 2019 compared with the same period in the prior year. Software and Analytics revenue reflects core revenue growth and timing, partially offset by ongoing efforts to rationalize the connected analytics solution and the effect of prior year one-time nonrecurring revenue of \$6.0 million in the enterprise imaging business.

Software and Analytics Adjusted EBITDA increased \$9.5 million for the three months ended September 30, 2019, compared to the same period in the prior year. This increase in Adjusted EBITDA was attributable to core revenue growth and timing, operational synergies, and cost initiatives related to the connected analytics solution, partially offset by the decline in the enterprise imaging business.

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### Network Solutions

Network Solutions revenue increased \$8.0 million for the three months ended September 30, 2019 compared with the same period in the prior year, which primarily reflects increased revenues resulting from the sale of new contracts in the data solutions, dental and medical network businesses and stronger volume.

Network Solutions Adjusted EBITDA increased by \$2.5 million for the three months ended September 30, 2019 compared to the same period in the prior year. As described above, Network Solutions revenue was positively affected by increased revenues resulting from the sale of new contracts in the data solutions, dental and medical network businesses and stronger volumes. Adjusted EBITDA similarly increased as a result of these factors partially offset by investments to support the data solutions new market expansion efforts and continued investment in network capabilities.

### Technology-enabled Services

Technology-enabled Services revenue decreased \$2.4 million for the three months ended September 30, 2019, compared with the same period in the prior year. Technology-enabled Services revenue for the three months ended September 30, 2019 was primarily impacted by new sales and same store organic growth of \$24 million, which was more than offset by \$30 million of customer attrition (including the company's decision to exit certain contracts). Customer attrition for the three months ended September 30, 2019 reflects the full current period impact of attrition that occurred throughout fiscal year 2019 in the Joint Venture's physician revenue cycle management and communication and payment services solutions, driven by industry consolidation. While the Joint Venture expects that such consolidation will continue in the future, as part of its strategy, the Joint Venture is repositioning certain of its solutions to better address end market dynamics, enhance efficiency and to improve the long-term growth potential of these solutions.

Technology-enabled Services Adjusted EBITDA increased \$1.8 million for the three months ended September 30, 2019, compared to the same period in the prior year. Technology-enabled Services Adjusted EBITDA for the three months ended September 30, 2019 reflects the decrease in Technology-enabled Services revenue which was more than offset by cost savings from the Joint Venture's post-contribution cost synergy initiatives.

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**Six Months Ended September 30, 2019 (ASC 605 Basis) Compared to Six Months Ended September 30, 2018**

**Solutions Revenue**

Solutions revenue increased \$8.7 million for the six months ended September 30, 2019, compared with the same period in the prior year. Solutions revenue for the six months ended September 30, 2019 was generally affected the continuation of trends described in the discussion of results of operations for the three months ended September 30, 2019. In addition, the comparison to the prior year period was discretely affected by the sale of the Joint Venture's extended care business in July 2018.

**Expenses**

Expenses were affected by similar items outlined in the discussion of results for the three months ended September 30, 2019.

**Solutions Revenue and Adjusted EBITDA**

(in millions)	Six Months Ended September 30,					
	2019			2018		
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	\$ Change	% Change
<b>Solutions revenue (1)</b>						
Software and Analytics	\$ 813.5	(28.5)	785.0	\$ 779.9	\$ 5.1	0.7%
Network Solutions	\$ 285.9	—	285.9	\$ 272.9	\$ 13.0	4.8%
Technology-enabled Services	\$ 488.1	(3.1)	485.0	\$ 493.3	\$ (8.3)	(1.7)%
<b>Adjusted EBITDA</b>						
Software and Analytics	\$ 342.4	(37.1)	305.3	\$ 282.1	\$ 23.2	8.2%
Network Solutions	\$ 171.5	(0.9)	170.6	\$ 165.8	\$ 4.8	2.9%
Technology-enabled Services	\$ 90.0	(4.5)	85.5	\$ 89.2	\$ (3.7)	(4.1)%

(1) Includes inter-segment revenue

Revenue and Adjusted EBITDA for the six months ended September 30, 2019 for all three segments were affected by similar trends outlined in the discussion of results for the three months ended September 30, 2019. The increases in revenue and Adjusted EBITDA for Software and Analytics were partially offset by the divestiture of the extended care business, which contributed revenue of \$9.2 million and Adjusted EBITDA of \$1.5 million in the six months ended September 30, 2018.

**Significant Changes in Assets and Liabilities**

Within the Joint Venture's network solutions business, the Joint Venture regularly receives funds from certain pharmaceutical industry participants in advance of its obligation to remit these funds to participating retail pharmacies. Such funds are not restricted; however, these funds are generally paid out in satisfaction of the processing obligations within three business days of their receipt. At the time of receipt, the Joint Venture records a corresponding liability within accrued expenses on its consolidated balance sheets. At September 30, 2019, the Joint Venture reported \$20.3 million of such pass-through payment obligations which were subsequently paid in the first week of October 2019. At March 31, 2019, the Joint Venture reported \$7.4 million of such pass-through payment obligations.

**Liquidity and Capital Resources**

**Overview**

The Joint Venture's principal sources of liquidity are cash flows provided by operating activities, cash and cash equivalents on hand, and potential funds available under its Revolving Credit Facility. The Joint Venture's principal uses of liquidity are working capital, capital expenditures, debt service, business acquisitions and other general corporate purposes. The Joint Venture anticipates its cash on hand, cash generated from operations, and funds available under the Revolving Credit Facility will be sufficient to fund its planned capital expenditures, debt service obligations, business acquisitions and operating needs. The Joint Venture may, however, elect to raise funds through debt or equity financing in the future to fund significant investments or acquisitions that are consistent with its growth strategy.

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Cash, cash equivalents and restricted cash totaled \$73.0 million and \$48.9 million at September 30, 2019 and March 31, 2019, respectively, of which \$23.7 million and \$28.1 million was held outside the United States. As of September 30, 2019, no amounts had been drawn under the senior secured revolving line of credit and the Joint Venture could have borrowed up to the additional \$779.9 million available. The Joint Venture also has the ability to borrow up to an additional \$1,080.0 million, or such amount that the senior secured net leverage ratio does not exceed 4.9 to 1.0, whichever is greater, under the Senior Secured Credit Facilities, subject to certain additional conditions and commitments by existing or new lenders to fund any additional borrowings.

The balance retained in cash and cash equivalents is consistent with the Joint Venture's short-term cash needs and investment objectives. The Joint Venture may be required to make additional principal payments on the Term Loan Facility based on excess cash flows of the prior year, as defined in the credit agreement governing the Term Loan Facility.

(in millions)	Six Months Ended September 30,			
	2019	2018	\$ Change	% Change
Cash provided by (used in) operating activities	\$ 223.9	\$ 227.9	\$ (4.0)	(1.8)%
Cash provided by (used in) investing activities	(148.8)	35.6	(184.4)	(518.0)
Cash provided by (used in) financing activities	(51.3)	(104.8)	53.5	(51.0)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	0.3	(0.7)	1.0	(142.9)
<b>Net change in cash, cash equivalents and restricted cash</b>	<b>\$ 24.1</b>	<b>\$ 158.0</b>	<b>(133.9)</b>	<b>(84.7)%</b>

### Operating Activities

Cash provided by operating activities is primarily affected by operating income, including the impact of debt service payments, integration related costs and the timing of collections and related disbursements. Cash provided by operating activities includes \$12.9 million and \$156.1 million as a source of cash related to pass-through funds for the six months ended September 30, 2019 and 2018, respectively.

### Investing Activities

Cash used in investing activities primarily reflects routine capital expenditures related to purchase of property and equipment and the development of software, as well as expenditures related to significant software development efforts necessary to integrate the contributed businesses in both periods. Cash provided by investing activities in the six months ended September 30, 2018 was primarily impacted by the proceeds from the sale of the extended care business.

### Financing Activities

Cash used in financing activities reflects cash payments under the Term Loan Facility, receipts under the Joint Venture's interest rate cap agreements, and payments for deferred financing obligations. Cash used in financing activities was primarily impacted by the proceeds from the initial public offering and resulting increased payments under the Term Loan Facility in the six months ended September 30, 2019.

### Capital Expenditures

The Joint Venture incurs capital expenditures to grow its business by developing new and enhanced capabilities, to increase the effectiveness and efficiency of the organization and to reduce risks. The Joint Venture incurs capital expenditures for product development, disaster recovery, security enhancements, regulatory compliance and the replacement and upgrade of existing equipment at the end of its useful life.



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### **Debt**

#### *Senior Credit Facilities and Senior Notes*

In March 2017, the Joint Venture entered into the \$5,100 million term loan facility (the “Term Loan Facility”), and a \$500 million revolving credit facility (as amended in July 2019 to increase the maximum amount that can be borrowed to \$785 million, the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Senior Secured Credit Facilities”). Additionally, the Joint Venture issued \$1,000 million of 5.75% senior notes due 2025 (the “Senior Notes”). No amounts have been drawn against the Revolving Credit Facility as of September 30, 2019.

The Joint Venture used the initial public offering proceeds received from Change Healthcare Inc. to repay \$805,000 of its indebtedness under the Term Loan Facility without penalty in July 2019. The Joint Venture repaid an additional \$85,000 of its indebtedness under the Term Loan Facility without penalty during the three months ended September 30, 2019 for a total paydown of \$890,000.

In July 2019, the Joint Venture amended the Revolving Credit Facility, the primary effects of which were to increase the maximum amount that can be borrowed from \$500 million to \$785 million and to extend the maturity date until July 3, 2024. In the event that the outstanding balance under the Term Loan Facility exceeds \$1,100 million on December 1, 2023, however, amounts due, if any, under the Revolving Facility become due and payable on December 1, 2023.

#### *Tangible Equity Units*

In July 2019, the Joint Venture issued a debt arrangement to Change Healthcare Inc. on terms that substantially mirror the economics of the amortizing note component of the Change Healthcare Inc. TEUs. The Joint Venture agreed to pay Change Healthcare Inc. an aggregate principal amount of \$47,367 in quarterly installments of principal and interest (5.5% per year) on March 30, June 30, September 30, and December 30 of each year through June 30, 2022.

#### *Hedges*

From time to time, the Joint Venture executes interest rate cap agreements with various counterparties that effectively cap its LIBOR exposure on a portion of its existing Term Loan Facility or similar replacement debt. The following table summarizes the terms of the Joint Venture’s interest rate cap agreements at September 30, 2019.

Effective Date	Expiration Date	Notional Amount	Receive LIBOR Exceeding (1)	Pay Fixed Rate
March 31, 2017	March 31, 2020	\$ 650,000	1.25%	0.56%
March 31, 2017	March 31, 2020	\$ 750,000	1.00%	0.82%
August 31, 2018	March 31, 2020	\$ 500,000	1.00%	1.82%
March 31, 2020	December 31, 2021	\$ 1,500,000	1.00%	1.82%

(1) All based on 1-month LIBOR, except the \$650,000 tranche which receives based on 3-month LIBOR.

The interest rate caps are recorded on the balance sheet at fair value. Changes in the fair value of the interest rate cap agreements are recorded in other comprehensive income.

In accordance with ASC 815, the fair value of the interest rate caps at inception is reclassified from other comprehensive income to interest expense in the same period the interest expense on the underlying hedged debt impacts earnings. Any payments the Joint Venture receives to the extent LIBOR exceeds the specified cap rate is also reclassified from other comprehensive income to interest expense in the period received.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee (“ARRC”) has proposed that the Secured Overnight Financing Rate (“SOFR”) is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. The Joint Venture has material contracts that are indexed to USD-LIBOR and is monitoring this activity and evaluating the related risks.

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### *Effect of Certain Debt Covenants*

A breach of any of the covenants under the agreements governing the Joint Venture's debt could limit its ability to borrow funds under the Term Loan Facility and could result in a default under the Term Loan Facility. Upon the occurrence of an event of default under the Term Loan Facility, the lenders could elect to declare all amounts then outstanding to be immediately due and payable, and the lenders could terminate all commitments to extend further credit. If the Joint Venture were unable to repay the amounts declared due, the lenders could proceed against any collateral granted to them to secure that indebtedness.

With certain exceptions, the Term Loan Facility obligations are secured by a first-priority security interest in substantially all of the assets of the Joint Venture, including its investment in subsidiaries. The Term Loan Facility contains various restrictions and nonfinancial covenants, along with a senior secured net leverage ratio test. The nonfinancial covenants include restrictions on dividends, investments, dispositions, future borrowings and other specified payments, as well as additional reporting and disclosure requirements. The senior secured net leverage test must be met as a condition to incur additional indebtedness, but otherwise is applicable only to the extent that amounts drawn exceed 35% of the Revolving Credit Facility at the end of any fiscal quarter. As of September 30, 2019, the Joint Venture was in compliance with all debt covenants.

The Joint Venture's ability to meet its liquidity needs depends on its subsidiaries' earnings and cash flows, the terms of the Joint Venture and its subsidiaries' indebtedness, and other contractual restrictions. Except for certain permitted distributions, the Joint Venture generally is not permitted to make any distribution to its members.

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

As of September 30, 2019, the Joint Venture had no off-balance sheet arrangements.

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### **Recent Accounting Pronouncements**

See Exhibit 99.1, “Notes to Consolidated Financial Statements,” Note 2, “Summary of Significant Accounting Policies,” for information about recent accounting pronouncements and the potential impact on the Joint Venture’s consolidated financial statements.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. The Joint Venture considers 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 Joint Venture believes the current assumptions and other considerations used to estimate amounts reflected in its 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 the Joint Venture’s consolidated results of operations and financial condition.

### ***Revenue Recognition***

In April 2019, the Joint Venture adopted Accounting Standards Codification ASC 606, Revenue from Contracts with Customers, which replaced most prior general and industry specific revenue recognition guidance with a principles-based comprehensive revenue recognition framework. Under this revised framework, a company recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services.

The Joint Venture generates most of its solutions revenue by using technology solutions (generally Software as a Service (“SaaS”)) to provide services to its customers that automate and simplify business and administrative functions for payers, providers, pharmacies, and channel partners and through the licensing of software, software systems (consisting of software, hardware and maintenance support) and content.

The Joint Venture recognizes revenue when the customer obtains control of the good or service through the Joint Venture satisfying a performance obligation by transferring the promised good or service to the customer.

### ***Principal Revenue Generating Products and Services***

*Content license subscriptions and time-based software*—The Joint Venture’s content license subscriptions and time-based software arrangements provide a license to use a software for a specified period of time. At the end of the contractual period, the customer either renews the license for an additional term or ceases to use the software. Software licenses are typically delivered to the customer with functionality that the customer can benefit from the software on its own or together with readily available resources. As contracts for these solutions generally do not price individual components separately, the Joint Venture allocates the transaction price to the license and ongoing support performance obligations based on standalone selling price (“SSP”), primarily determined by historical value relationships between licenses and ongoing support and updates. Revenue allocated to content license subscriptions and time-based software license agreements is generally recognized at the point-in-time of delivery of the license or the content update upon transfer of control of the underlying license to the customer. Generally, software implementation fees are recognized over the implementation period through an input measure of progress method. Revenue allocated to maintenance and support is recognized ratably over the period covered by the agreements, as passage of time represents a faithful depiction of the transfer of these services. In some cases, software arrangements provide licenses to several software applications that are highly integrated with the implementation services and software updates and cannot function separately. The bundle is a single performance obligation since the individually promised goods and services are not distinct in the context of the contract because the related implementation services significantly modify and customize the software and the updates provided to the integrated software solution are critical to the software’s utility. The related revenue is recognized on a straight-line basis, ratably over the contractual term due to the frequency and criticality of the updates throughout the license period.

*Contingent fee services*—The Joint Venture provides services to customers in which the transaction price is contingent on future occurrences, such as savings generated or amounts collected on behalf of its customers through the delivery of its services. In some cases, the Joint Venture performs services in advance of invoicing the customer, thereby creating a contract asset. Revenue in these arrangements is estimated and constrained until the Joint Venture determines that it is probable that a significant revenue reversal will not occur, and variable consideration is allocated to the performance obligation for which the Joint Venture earns a contingent fee.

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*Perpetual software licenses*—The Joint Venture’s perpetual software arrangements provide a license for a customer to use software in perpetuity. Software licenses are typically delivered to the customer with functionality from which the customer can benefit from the license on its own or together with readily available resources. Perpetual software arrangements are recognized at the time of delivery or through an input measure of progress method over the installation period if the arrangements require significant production or modification or customization of the software. Contracts accounted for through an input measure of progress method are generally measured based on the ratio of labor hours incurred to date to total estimated labor hours to be incurred. Software implementation fees are recognized as the work is performed or under the input method for perpetual software. Hardware revenues are generally recognized upon delivery. Maintenance is recognized ratably over the term of the agreement as passage of time represents a faithful depiction of the transfer of these services.

*Professional services*—The Joint Venture provides training and consulting services to its customers, and the services may be fixed fee or time and materials based. Consulting services that fall outside of the standard implementation services vary depending on the scope and complexity of the service requested by the customer. Consulting services are deemed to be capable of being distinct from other products and services, and the services are satisfied either at a point of time or over time based on delivery. Training services are usually provided as an optional service to enhance the customer’s experience with a software product or provides additional education surrounding the general topic of the solution. Training services are capable of being distinct from other products and services. The Joint Venture treats training services as a distinct performance obligation, and they are satisfied at a point of time.

*Transaction processing services*—The Joint Venture provides transaction processing (such as claims processing) services to hospitals, pharmacies and health systems via a cloud-based (SaaS) platform. The promised service is to stand ready to process transactions for our customers over the contractual period on an as needed basis. The revenue related to these services is recognized over time as the transactions are processed, and the revenue is recognized over the individual days in which the services are performed. Any fixed annual fees and implementation fees are recognized ratably over the contract period.

*Hosted solutions and software as a service (“SaaS”)*—The Joint Venture enters into arrangements whereby the Joint Venture provides the customer access to a Joint Venture-owned software solution, which are generally marketed under annual and multi-year arrangements. The customer is only provided “access” (not a license) to the software application. In these arrangements, the customer does not purchase equipment nor does the customer take physical possession of the software. The related revenue is recognized ratably over the contracted term. For fixed fee arrangements, revenue recognition begins after set-up and implementation are complete. For per-transaction fee arrangements, revenue is recognized as transactions are processed beginning on the service start date.

### Contract Balances

The Joint Venture’s payment terms vary by customer and product type. For certain products or services, the Joint Venture requires upfront payments before control of the product or service has transferred to the customer. For other products and services, the Joint Venture invoices the customer in arrears after providing the products or services. In addition, for certain contingent fee services, customers are billed in arrears, typically based upon a percentage of collections the Joint Venture makes on the customer’s behalf.

Under the new revenue standard, the Joint Venture generally recognizes a contract asset when revenue is recognized in advance of invoicing on a customer contract, unless the right to payment for that revenue is unconditional (i.e. requiring no further performance and only the passage of time). If a right to payment is determined to meet the criteria to be considered ‘unconditional’, then the Joint Venture will recognize a receivable.

There were no impairment losses recognized on accounts receivable or contract assets in the three and six months ended September 30, 2019.

The Joint Venture records deferred revenues when billings or payments are received from customers in advance of its performance. Deferred revenue is generally recognized when transfer of control to customers occurs. The deferred revenue balance is driven by multiple factors, including the frequency of renewals, invoice timing, and invoice duration. As of September 30, 2019, the Joint Venture expects 94% of the deferred revenue balance to be recognized in one year or less, and approximately \$328 million of the beginning period balance was recognized during the three months ended September 30, 2019.

### Costs to Obtain or Fulfill a Contract

Sales commissions and certain other incentive payments (e.g., bonuses that are contingent solely on obtaining a contract or a pool of contracts) earned by the Joint Venture’s sales organization are capitalized as incremental costs to obtain a contract. The Joint Venture typically does not offer commissions on contract renewals. Decremental commissions upon renewal (i.e., non-commensurate with initial commissions) are offered to the Joint Venture’s sales associates for certain customers and are not material. Under ASC 606, all commissions and other qualifying incentive payments capitalized are amortized over an expected period of benefit defined as the initial contract term plus anticipated renewals. In contrast, under ASC 605 these capitalized costs were amortized over the specific

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revenue contract terms, which are typically 12 to 60 months. In making the significant judgment in determining the appropriate period of benefit, the Joint Venture evaluated both qualitative and quantitative factors such as the expected customer relationship period and technology obsolescence. In addition, prior to solution go-live, the Joint Venture incurs certain contract fulfillment costs primarily related to SaaS setup for our clients. These costs are capitalized to the extent they are directly related to a contract, are recoverable, and create a resource used to deliver the Joint Venture's SaaS services. Capitalized costs to fulfill a contract are amortized over the expected period of benefit.

At September 30, 2019, the Joint Venture had capitalized costs to obtain a contract of \$12.4 million in prepaid and other current assets and \$67.4 million in other noncurrent assets. During the three and six months ended September 30, 2019, the Joint Venture recognized \$5.1 million and \$9.2 million, respectively, of amortization expense related to such capitalized costs, which is included in the total operating expenses. At September 30, 2019, the Joint Venture had capitalized costs to fulfill a contract of \$1.4 million in prepaid and other current assets and \$8.6 million in other noncurrent assets. During the three and six months ended September 30, 2019, the Joint Venture recognized \$0.3 million and \$0.6 million, respectively, of amortization expense related to such capitalized costs, which is included in cost of operations.

### Postage Revenues

Postage revenues are the result of providing delivery services to customers in the Joint Venture's payment and communication solutions. Postage revenues are generally billed as a pass-through cost to the Joint Venture's customers. The service is part of a combined performance obligation with the printing and handling services provided to the customer because the postage services are not distinct within the context of the contract. The Joint Venture presents Postage Revenue separately from Solutions Revenue on the consolidated statements of operation as it makes the financial statements more informative for the users. The revenue related to the combined performance obligation of the postage, printing, and handling service is recognized as the transactions are processed, and the revenue is recognized over the individual days in which the services are performed.

### Arrangements with Multiple Performance Obligations

The Joint Venture engages in customer arrangements which may include multiple performance obligations, such as any combination of software, hardware, implementation, SaaS-based offerings, consulting services, or maintenance services. For such arrangements, the Joint Venture allocates revenues to each performance obligation on a relative standalone selling price basis. A performance obligation's standalone selling price is determined based on the directly observable prices charged to customers when available or estimated using other methods such as the adjusted market assessment approach, the expected cost plus a margin approach, or other approaches in cases where distinct performance obligations are not sold separately but instead sold at a bundled price. For performance obligations with historical pricing that is highly variable, the residual approach is used. Such instances primarily relate to the Joint Venture's perpetual software arrangements in which the Joint Venture sells the same products to different customers for a broad range of amounts.

### Remaining Performance Obligations

The aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) for executed contracts includes deferred revenue and other revenue yet to be recognized from non-cancellable contracts. As of September 30, 2019, the Joint Venture's total remaining performance obligations approximated \$1.4 billion, of which approximately 52% is expected to be recognized over the next twelve months, and the remaining 48% thereafter.

In this balance, the Joint Venture does not include the value of unsatisfied performance obligations related to those contracts for which it recognizes revenue at the amount for which it has the right to invoice for services performed. Additionally, this balance does not include revenue related to performance obligations that are part of a contract with an original expected duration of one year or less. Lastly, this balance does not include variable consideration allocated to the individual goods or services in a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Examples includes variable fees associated with transaction processing and contingent fee services.

### Disaggregated Revenue

The Joint Venture disaggregates the revenue from contracts with customers by operating segment as it believes doing so best depicts how the nature, amount, timing and uncertainty of the Joint Venture's revenue are affected by economic factors. See Note 9 in the Joint Venture unaudited financial statements included in Exhibit 99.1, "Segment Reporting" for the total revenue disaggregated by operating segment for the six months ended September 30, 2019 and 2018.

The Joint Venture's total revenue by disaggregated revenue source was generally consistent for each reportable segment for the three and six months ended September 30, 2019 compared with the corresponding periods in 2018.

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### Customer Incentives

Certain customers, which include the Joint Venture's channel partners, may receive cash-based incentives or rebates based on actual sales and achievement of a cumulative level of sales, which are accounted for as variable consideration. The Joint Venture considers these amounts to be consideration payable to the customer, and therefore, the Joint Venture estimates these amounts based on the expected amount to be provided to customers and reduces the transaction price accordingly.

### Practical Expedients and Exemptions

The Joint Venture has elected to utilize either the right to invoice practical expedient or the series-based variable consideration allocation framework for most transaction processing services not subject to contingencies. The Joint Venture also has elected to exclude sales taxes and other similar taxes from the measurement of the transaction price in contracts with customers. Therefore, revenue is recognized net of such taxes.

In certain customer arrangements with customers, the Joint Venture determined there are certain promised goods or services which are immaterial in the context of the contract from both a quantitative and qualitative perspective, and therefore, the goods and services are disregarded when assessing the performance obligations in the customer arrangement.

The Joint Venture has elected to apply the significant financing practical expedient, and as a result, the Joint Venture will not adjust the promised amount of consideration in a customer contract for the effects of a significant financing component when the period of time between when the Joint Venture transfers a promised good or service to a customer and when the customer pays for the good or service will be one year or less.

Apart from the adoption of ASC 606, the Joint Venture believes there have been no other significant changes during the six months ended September 30, 2019 to the items we previously disclosed as our critical accounting estimates in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

### **Cautionary Notice Regarding Forward-Looking Statements**

This Quarterly Report contains "forward-looking statements" within the meaning of federal securities laws. Any statements made in this quarterly report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include information concerning possible or assumed future results of operations, including descriptions of our business plans and strategies. These statements often include words such as "anticipate," "expect," "suggest," "plan," "believe," "intend," "estimate," "target," "project," "should," "could," "would," "may," "will," "forecast," "outlook," "potential," "continues," "seeks," "predicts," and the negatives of these words and other similar expressions.

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Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that factors affecting our actual financial results could cause actual results to differ materially from those expressed in the forward-looking statements. Factors that could materially affect our financial results or such forward-looking statements include, among others, the following factors:

- macroeconomic and industry trends and adverse developments in the debt, consumer credit and financial services markets;
- our ability to provide competitive services and prices while maintaining our margins;
- our ability to retain or renew existing customers and attract new customers;
- our ability to maintain the security and integrity of our data;
- our ability to deliver services timely without interruption;
- our ability to maintain our access to data sources;
- government regulation and changes in the regulatory environment;
- litigation or regulatory proceedings;
- our ability to effectively manage our costs;
- economic and political instability in the United States and international markets where we operate;
- our ability to effectively develop and maintain strategic alliances and joint ventures;
- our ability to timely develop new services and the market's willingness to adopt our new services;
- our ability to manage and expand our operations and keep up with rapidly changing technologies;
- our ability to make acquisitions and integrate the operations of acquired businesses;
- our ability to protect and enforce our intellectual property, trade secrets and other forms of unpatented intellectual property;
- our ability to defend our intellectual property from infringement claims by third parties;
- the ability of our outside service providers and key vendors to fulfill their obligations to us;
- further consolidation in our end-customer markets;
- losses against which we do not insure;
- our ability to make timely payments of principal and interest on our indebtedness;
- our ability to satisfy covenants in the agreements governing our indebtedness;
- our ability to maintain our liquidity;
- our reliance on key management personnel; and
- our controlling stockholders.

There may be other factors, many of which are beyond our control, that may cause our actual results to differ materially from the forward-looking statements, including factors disclosed in the Registration Statement on Form S-1 (No. 333-230345) in the section entitled "Risk Factors" and in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. You should evaluate all forward-looking statements made in this report and the other public statements we may make from time to time in the context of these risks and uncertainties.

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Change Healthcare Inc.**

Change Healthcare Inc. holds an equity method investment in the LLC Units of the Joint Venture as well as, following the consummation of the offering of TEUs on July 1, 2019, investments in the amortizing notes and prepaid forward purchase contracts components of the TEUs issued by the Joint Venture. In the case of the equity method investment in the Joint Venture, Change Healthcare Inc. is only exposed to changes in the fair value of the investment to the extent that the changes in fair value are so significant and long-lasting that they represented an other than temporary impairment of the investment. In the case of the investments in the amortizing note and prepaid forward purchase contracts components of the TEUs, however, such investments are required to be remeasured to their respective fair value each quarter with the changes in those values affecting earnings and other comprehensive income of Change Healthcare Inc.

## **Change Healthcare LLC**

The Joint Venture has interest rate risk primarily related to borrowings under the Senior Secured Credit Facilities. Borrowings under the Senior Secured Credit Facilities bear interest at a rate equal to, at the Joint Venture's option, either (i) LIBOR for the relevant interest period, adjusted for statutory reserve requirements (which is subject, in the case of the Term Loan Facility, to a floor of 1.00% per annum and, in the case of the Revolving Credit Facility, to a floor of 0.00% per annum), plus an applicable margin or (ii) a base rate equal to the highest of (a) the rate of interest in effect as publicly announced by the administrative agent as its prime rate, (b) the federal funds effective rate plus 0.50% and (c) adjusted LIBOR for an interest period of one month plus 1.00% (which may be subject, solely in the case of the Term Loan Facility, to a floor of 2.00% per annum), in each case, plus an applicable margin.

As of September 30, 2019, the Joint Venture had borrowings of \$3,993.3 million (before unamortized debt discount) under the Senior Secured Credit Facilities. As of September 30, 2019, the LIBOR-based interest rate on the Term Loan Facility and Revolving Credit Facility were each LIBOR plus 2.5%.

The Joint Venture manages 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, the Joint Venture enters into interest rate cap 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. The Joint Venture's interest rate cap 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. As of September 30, 2019, the Joint Venture's outstanding interest rate cap agreements were each designated as cash flow hedges of interest rate risk and were determined to be highly effective.

A change in interest rates on variable rate debt may impact the Joint Venture's pretax earnings and cash flows. Based on the Joint Venture's outstanding debt as of September 30, 2019, and assuming that its mix of debt instruments, derivative financial instruments 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 the Joint Venture's earnings and cash flows of approximately \$20.9 million.

In the future, in order to manage the Joint Venture's interest rate risk, it may refinance its existing debt, enter into additional interest rate cap agreements, modify its existing interest rate cap agreements or make changes that may impact its ability to treat its interest rate cap agreements as a cash flow hedge. However, the Joint Venture does not intend or expect to enter into derivative or interest rate cap agreement transactions for speculative purposes.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Disclosure Controls and Procedures***

Change Healthcare Inc.'s management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. The term "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosures.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving their desired control objectives. Based on the evaluation of Change Healthcare Inc.'s disclosure controls and procedures as of the end of the period covered by this report, its Chief Executive Officer and Chief Financial Officer concluded that, as of such date, its disclosure controls and procedures were effective at a reasonable assurance level.

#### ***Changes in Internal Control Over Financial Reporting***

During the quarter covered by this report, there have been no changes in Change Healthcare Inc.'s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.



## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

#### **Change Healthcare Inc.**

In the normal course of business, Change Healthcare Inc. may become subject to various claims and legal proceedings. As of September 30, 2019, Change Healthcare Inc. was not involved in any material pending legal proceedings.

#### **Change Healthcare LLC**

The Joint Venture is subject to various claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of its business.

From time to time, the Joint Venture receives subpoenas or requests for information from various government agencies. The Joint Venture generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require time and effort and can result in considerable costs being incurred by the Joint Venture. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Joint Venture and other members of the health care industry, as well as to settlements.

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

To reduce their exposure to an unexpected significant monetary award resulting from an adverse judicial decision, both Change Healthcare Inc. and Change Healthcare LLC maintain insurance that they believe is appropriate and adequate based on historical experience. Both Change Healthcare Inc. and Change Healthcare LLC advise their insurance carriers of any claims, threatened or pending, against them in the course of litigation and generally receives a reservation of rights letter from the carriers when such claims exceed applicable deductibles.

### **ITEM 1A. RISK FACTORS**

In addition to the other information included in this report, you should carefully consider the factors discussed in "Risk Factors" included in the Registration Statement on Form S-1 (No. 333-230345), as well as the factors identified under "Cautionary Notice Regarding Forward-Looking Statements" at the end of Part I, Item 2 of this Quarterly Report, which could materially affect the Change Healthcare Inc.'s or the Joint Venture's business, financial condition or future results. The risks described in the Registration Statement on Form S-1 and this Quarterly Report are not the only risks Change Healthcare Inc. or the Joint Venture face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or operating results.

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

None

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

### **ITEM 4. MINE SAFETY DISCLOSURES**

None

### **ITEM 5. OTHER INFORMATION**

None

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### ITEM 6.EXHIBITS

The exhibits listed on the accompanying Exhibit Index are filed, furnished or incorporated by reference (as stated therein) as part of this Quarterly Report.

#### Exhibit Index

3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation of Change Healthcare Inc., dated as of June 26, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on July 2, 2019).</u></a>
3.2	<a href="#"><u>Amended and Restated Bylaws of Change Healthcare Inc., dated as of June 26, 2019 (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on July 2, 2019).</u></a>
4.1	<a href="#"><u>Purchase Contract Agreement, dated as of July 1, 2019, between Change Healthcare Inc. and U.S. Bank N.A., as purchase contract agent, as attorney-in-fact for the Holders from time to time as provided therein and as trustee under the indenture referred to therein (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on July 2, 2019).</u></a>
4.2	<a href="#"><u>Form of Unit (included in Exhibit 4.1).</u></a>
4.3	<a href="#"><u>Form of Purchase Contract (included in Exhibit 4.1).</u></a>
4.4	<a href="#"><u>Indenture, dated as of July 1, 2019, between Change Healthcare Inc. and U.S. Bank N.A., as trustee (incorporated by reference to Exhibit 4.4 to the Company's Form 8-K filed on July 2, 2019).</u></a>
4.5	<a href="#"><u>First Supplemental Indenture, dated as of July 1, 2019, between Change Healthcare Inc. and U.S. Bank N.A., as trustee (incorporated by reference to Exhibit 4.5 to the Company's Form 8-K filed on July 2, 2019).</u></a>
10.1	<a href="#"><u>Change Healthcare LLC Annual Incentive Plan (AIP) Amended and Restated as of September 18, 2019.</u></a>
10.2	<a href="#"><u>Change Healthcare LLC U.S. Executive Severance Benefit Guidelines (Amended and Restated September 18, 2019).</u></a>
31.1	<a href="#"><u>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).</u></a>
31.2	<a href="#"><u>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).</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u></a>
99.1	<a href="#"><u>Condensed financial information of Change Healthcare LLC as of September 30, 2019 and March 31, 2019, and for the six months ended September 30, 2019 and 2018.</u></a>
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

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Certain agreements and other documents filed as exhibits to this Form 10-Q contain representations and warranties that the parties thereto made to each other. These representations and warranties have been made solely for the benefit of the other parties to such agreements and may have been qualified by certain information that has been disclosed to the other parties to such agreements and other documents and that may not be reflected in such agreements and other documents. In addition, these representations and warranties may be intended as a way of allocating risks among parties if the statements contained therein prove to be incorrect, rather than as actual statements of fact. Accordingly, there can be no reliance on any such representations and warranties as characterizations of the actual state of facts. Moreover, information concerning the subject matter of any such representations and warranties may have changed since the date of such agreements and other documents.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Change Healthcare Inc.

November 14, 2019

By /s/ Neil E. de Crescenzo

Neil E. de Crescenzo  
Chief Executive Officer and Director  
(Principal Executive Officer)

November 14, 2019

By /s/ Fredrik Eliasson

Fredrik Eliasson  
Executive Vice President, Chief Financial Officer  
(Principal Financial Officer)

**Change Healthcare LLC  
Annual Incentive Plan (AIP)  
Amended and Restated as of September 18, 2019**

1. **Purpose.** The purpose of the Change Healthcare LLC Annual Incentive Plan (the “Plan”) is to provide an incentive to eligible employees of Change Healthcare LLC and its participating subsidiaries (collectively, the “Company”) who contribute to the success of the enterprise. The Plan offers eligible employees an opportunity to earn compensation in addition to their base salaries, based upon the performance of the Company (including its Business Units) and their individual performance.
2. **Plan Administration.** The Compensation Committee of the Board of Directors (the “Board”) of the Company (the “Committee”), in consultation with the Chief Executive Officer of the Company (the “CEO”), shall administer the Plan. The CEO shall oversee and interpret any and all aspects of the Plan (including the amount payable to any individual participant) and may delegate any responsibilities under the Plan to the Chief People Officer (“CPO”) of the Company. The CEO (other than with respect to himself) shall make final recommendations to the Committee regarding both the amount and the timing of any bonus payments pursuant to the Plan. The Committee shall review and approve the CEO’s recommendations. If an employee believes that he/she has been paid incorrectly or denied payment incorrectly under the Plan, the employee must provide written notice to the CPO (the “appeal”) within thirty (30) days of the date of the incorrect payment or payment refusal. The CEO has the sole unilateral discretion and authority to accept or reject an appeal, whether to modify or make a payment in response to an appeal, to interpret and apply the Plan and any and all language contained in the Plan, and to determine the amount of payment. Any and all decisions made by the CEO are final.
3. **Plan Year.** The Plan shall be effective from April 1 of each fiscal year of the Company through March 31 of such fiscal year (each, a Plan Year”).
4. **Participant Eligibility.** Employees eligible to participate in the Plan generally include regular full-time employees, unless state, local, province, or territorial laws requires additional employee participation, and an eligible employee selected to participate in the Plan is referred to as a “Participant”. A Participant must be employed and meet the eligibility criteria before the Participation Deadline to be eligible to participate in the Plan for that year.

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Generally, individuals who are ineligible to participate in the Plan include the following:

- Temporary employees, independent contractors and consultants
- Employees located in the United States who do not have a signed Company Protection Agreement on file with the Company
- Anyone not actively employed on the date the Actual Awards are distributed (except as described in this Plan summary)
- Any other employee that does not meet the eligibility criteria above

5. **Annual Incentive Potential.** The target bonus potential (“Annual Incentive Plan or AIP Target Percentage”) is calculated as a percentage of the Participant’s Annual Base Salary as of the last day of the Plan Year to which the bonus relates. If a Participant no longer participates in the Plan due to a change in job during the Plan Year, the AIP Target Percentage is calculated as a percentage of the Participant’s Annual Base Salary as of the last day of the Plan Year on which the individual was a Participant in the Plan. If a Participant changes from full-time to part-time or vice versa during the Plan year, then the AIP Target Percentage is calculated based on the different employment percentages applicable during the Plan Year. The guidelines for determining AIP Target Percentage are based on the level of the job the employee is assigned. These guidelines, however, may be adjusted to reflect the significance, scope and level of accountability for a given job. Adjustments (increases or reductions) to the AIP Target Percentage levels may be made at the discretion of the CEO or the CPO of the Company. Additionally, certain AIP Target Percentage levels are set forth in written employment agreements. As such, these written agreements shall be controlling.
6. **Performance Targets.** The funding and payment of bonuses is based upon performance metrics established by the Committee. Unless and until otherwise specified by the Committee, the three Plan components are the Company Performance Targets, Business Unit Performance Targets and Individual Performance Measures. Calculation of Actual Awards shall be based on the achievement of multiple objectives. Each objective has a threshold, target and a maximum level of performance. For each objective, the bonus payment shall range from zero to a maximum percentage based on the level of performance for that objective.
  - a. Company Performance Targets. Payments are contingent upon the Company achieving the Company Performance Targets as shall be set by the Committee within the first ninety days of a Plan Year. If, and when, bonuses are declared, financial calculations shall be made to determine the funding level for Participants based upon the Company Performance Targets.
  - b. Business Unit Performance Targets. For those eligible employees whose job responsibilities are primarily related to a particular Business Unit, payments for a portion of the Participant’s bonus amount are contingent upon the Business Unit, achieving the applicable Performance Targets as shall be set by the Committee with respect to each Plan Year. If, and when, bonuses are declared, financial calculations shall be made to determine a funding level for each Business Unit.

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- c. **Individual Performance Measures.** Each Participant shall have one or more Individual Performance Measures. Individual Performance Measures may be quantitative, qualitative or both. Once the Company and/or the Business Unit have achieved their performance goals, a Participant's Individual Performance Measures, taken as a whole with the Company and/or Business Unit performance, shall determine the amount of the Participant's Actual Award. Individual bonus potential can be greatly impacted by the level of achievement of Individual Performance Measures as determined by each Participant's manager. Actual Awards shall be adjusted, at each Participant's manager's discretion, to reflect the Participant's individual contribution to the achievement of Company Performance Targets and Business Unit Performance Targets and the Participant's Individual Performance Measures. A Participant's manager shall review and approve, modify or disapprove the Actual Award, if any, to be paid to a Participant for the Plan Year, and reserves the right to reduce or increase or eliminate the individual payments determined according to the above method.
7. **Prorations.** If an employee, not previously eligible for participation in the Plan, moves to a job and becomes eligible for participation in the Plan, the employee's Actual Award shall be calculated as a prorated portion of the annual bonus relevant to that Plan Year based upon the employee's first date of eligibility. If a person otherwise eligible for participation in the Plan becomes an employee of the Company during the Plan Year, the employee's Actual Award shall be calculated as a prorated portion of the annual bonus for that Plan Year based upon the employee's first date of employment. If a Participant is transferred to a new job during the Plan Year with a higher or lower AIP Target Percentage, the determination of the Participant's Actual Award shall be calculated based on the two different AIP Target Percentages, prorated for each AIP Target Percentage based on the date of the change in job. If a Participant is transferred to a new job during the Plan Year with a higher or lower Business Unit Performance Target, the determination of the Participant's Actual Award shall be calculated based on the different Performance Targets, prorated for each Business Unit Performance Target, based on the date of the change in job within that Plan Year. If a Participant no longer participates in the Plan due to a change in job during the Plan Year, the employee shall be eligible to receive a prorated award based on the period of participation in the Plan; provided, that the employee must continue to meet the "Conditions For Receiving Payment" set forth below. Such prorated award shall be paid at the same time as awards are made to other Participants under the Plan.
8. **Payout and Taxation.** The Company anticipates any bonus amounts earned under the Plan for each Plan Year shall be paid in a lump sum around June of the year following that Plan Year after completion of audited financial statements for the Plan Year and final executive and Committee approval but in any event, bonus amounts earned under the Plan, if any, shall be paid prior to March 15 of the calendar year following the end of the Plan Year to which such bonus amounts relate. Specific provisions regarding distribution

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are outlined below under the “Conditions for Receiving Payment” section of the Plan. Payroll taxes shall be withheld from the bonus award, or remitted to tax authorities, subject to and in accordance with law. Actual Awards that Participants receive shall be reported as income in the year in which they are paid, in accordance with applicable law.

9. **Conditions for Receiving Payment.** No Actual Awards under this Plan shall be paid to any Participant if employment is terminated, whether voluntary or involuntary, prior to the actual payment distribution date, except as described in Section 10 of this Plan summary or to the extent required by applicable law. However, the Company retains the authority to make exceptions to the foregoing policy in unusual or meritorious cases including, but not limited to, the death of a Participant during the Plan Year, termination of employment due to total or partial disability, call to active military service or retirement with the written consent of the Company. For clarity, a Participant **is** considered an active employee of the Company during any notice period, whether based on a written employment agreement, the applicable local employment or labor laws, or the common or civil law (“Notice Period”) if the Participant continues working during the Notice Period, regardless of why that Participant’s employment is terminated. However, if a Participant receives a payment in lieu of notice, instead of working during the Notice Period, the employee will not be considered an active employee during the Notice Period and the last day worked is considered the termination date for purposes of the Plan.
10. **Effect of Termination of Employment.** Except as expressly set forth in this section, a Participant must be an active employee of the Company on the date the Actual Awards are distributed to Participants to be eligible to receive any payment under the Plan.
  - a. **Death or Long-Term Disability.** If a Participant’s employment is terminated by the Company due to death or Long-Term Disability during the Plan Year, the Participant shall be entitled to receive a prorated portion of the Actual Award, with proration based on the date of termination of employment within the Plan Year.
  - b. **Retirement.** If a Participant’s employment is terminated due to Retirement on or after the Participation Deadline, the Participant shall be entitled to receive a prorated portion of the Actual Award, with proration based on the date of termination of employment within the Plan Year.
  - c. **Other Qualifying Terminations.** If a Participant’s employment is terminated due to a Qualifying Termination on or after the Participation Deadline, the Participant shall be entitled to receive a prorated portion of the Actual Award, with proration based on the date of termination of employment within the Plan Year.

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11. **Limitations and/or Adjustments.** Payment of an Actual Award under the Plan is not an integral part of a Participant's compensation package. A Participant's base salary compensates them for the expected results of any given job role within the Company. Payment of an Actual Award is at the discretion of the Company. For the avoidance of doubt, the Plan is discretionary by nature, and unless the provincial labor/employment standards legislation applicable in the province of employment where the Participant works requires otherwise in the specific circumstance, awards made under the Plan shall not be deemed a portion of a Participant's compensation for any purpose whatsoever, including without limitation, when calculating a Participant's entitlements to termination pay, severance pay or other amounts payable upon termination of employment. Participation in a Plan Year does not guarantee payment of an award under the Plan for that Plan Year and Participation in one Plan Year does not guarantee participation in any subsequent Plan Year. The Company reserves the right to review, amend, suspend and/or terminate the Plan, the incentive calculation formulas and all other aspects of the Plan at any time. Plan changes shall be based on a determination of the Company's business needs and do not require prior notification or explanation to Participants. A Participant's participation in the Plan shall not be construed as an employment contract or as a promise of continuing employment between the Company and the Participant. Employment with the Company is terminable at will, unless an employment contract or state, local, province, or territorial laws requires otherwise.
12. **Active Employment Eligibility.** If a Participant takes any type of approved leave of absence for less than (12) consecutive weeks during the Plan Year, this period of time will be included in the calculation of the award. If a Participant takes any type of approved leave of absence for (12) consecutive weeks during the Plan Year or more, the period of time in excess of (12) weeks will not be considered in the Participant's Actual Award calculation, unless an employment contract or state, local, province, or territorial laws requires otherwise.
13. **Section 409A.** The payments made under this Plan to Participants subject to U.S. taxes are intended to be exempt from with Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance issued thereunder ("Section 409A"). Payments made under this Plan shall be interpreted and construed to be distributed in the short-term deferral period, as defined under Treasury Regulation section 1.409A-1(b)(4). Notwithstanding any provision of this Plan to the contrary, this Plan shall be interpreted and construed consistent with the terms set forth in this Section 13, provided that the Company shall not be required to assume any increased economic burden in connection therewith. Although the Company intends to administer this Plan so that it shall be exempt from the requirements of Section 409A, the Company does not represent or warrant that this Plan shall be exempt from Section 409A or any other provision of federal, state, local, or non-United States law. The Company, or either of its directors, officers, employees or advisers shall not be liable to the Participant (or any other individual claiming a benefit through the Participant) for any tax, interest, or penalties the Participant may owe as a result of compensation paid under this Plan, and shall have no obligation to indemnify or otherwise protect the Participant from the obligation to pay any taxes pursuant to Section 409A.



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14. **Clawback.** Any payment made under this Plan shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with (i) any clawback, forfeiture or similar policy adopted by the Company, whether in existence as of the effective date of the Plan or later adopted by the Company) and (ii) any applicable law or government regulation. Further, unless otherwise determined by the Committee, to the extent that the Participant receives any amount in excess of the amount that the Participant should otherwise have received under the terms of the Plan for any reason (including, without limitation, by reason of a financial restatement, mistake in calculations or other administrative error), the Participant shall be required to repay any such excess amount to the Company. The Company will make any determination for clawback, forfeiture or recovery in its sole discretion and in accordance with any applicable law, government regulation or Company policy, as applicable. By participating in this Plan the Participant consents to such deductions being made by the Company.
15. **Change in Control.** In connection with a Change in Control, the Committee shall have the discretion to make changes to the Plan and awards hereunder as the Committee, in its sole discretion, deems to be equitable and appropriate.
16. **Definitions.**
- a. **“Actual Award”** means the finally determined amount payable to a Participant under the Plan for a Plan Year.
  - b. **“Affiliate”** means any Person that directly or indirectly controls, is controlled by, or is under common control with Change Healthcare Inc. The term “control” (including, with correlative meaning, the terms “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting or other securities, by contract, or otherwise.
  - c. **“Annual Base Salary”** means annual rate of pay as of the last day of the Plan year for exempt Participants. For non-exempt Participants, this is the hourly rate of pay annualized for the number of hours worked during the Plan Year.
  - d. **“Change in Control”** means (i) the acquisition (whether by purchase, merger, consolidation, combination, or other similar transaction) by any Person of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% (on a fully diluted basis) of either (A) the then-outstanding

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shares of Common Stock, taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, the exchange of exchangeable stock or units, and the exercise of any similar right to acquire such Common Stock; or (B) the combined voting power of the then-outstanding voting securities of Change Healthcare Inc. entitled to vote generally in the election of directors, in the case of each of the foregoing clauses (A) and (B) assuming that all Units (as defined in the Company LLC Agreement) held by MCK Members (as defined in the Company LLC Agreement) had been exchanged for an equal number of shares of Common Stock; provided, however, that for purposes of the Plan, the following acquisitions shall not constitute a Change in Control: (I) any acquisition by Change Healthcare Inc. or any Affiliate; (II) any acquisition by any employee benefit plan sponsored or maintained by Change Healthcare Inc. or any Affiliate; or (III) any acquisition in connection with a Qualified MCK Exit (as defined in the Company LLC Agreement); (ii) during any period of 12 months, individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, that any Person becoming a director subsequent to the effective date of the Plan, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of Change Healthcare Inc. in which such Person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest, as such terms are used in Rule 14a-12 of Regulation 14A promulgated under the Exchange Act, with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board shall be deemed to be an Incumbent Director; or (iii) the sale, transfer, or other disposition of all or substantially all of the assets of Change Healthcare Inc. and the Company (taken as a whole) to any Person that is not an Affiliate of Change Healthcare Inc. or the Company.

- e. "Common Stock" means the common stock of Change Healthcare Inc., par value \$0.001 per share (and any stock or other securities into which such Common Stock may be converted or into which it may be exchanged).
- f. "Company LLC Agreement" means the Third Amended and Restated Limited Liability Company Agreement of Change Healthcare LLC, dated as of March 1, 2017.
- g. "Exchange Act" means the Securities Exchange Act of 1934, as amended, and any successor thereto. Reference in the Plan to any section of (or rule promulgated under) the Exchange Act shall be deemed to include any rules, regulations, or other interpretative guidance under such section or rule, and any amendments or successor provisions to such section, rules, regulations, or guidance.

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- h. “Long-Term Disability” shall mean the Company or its affiliates having cause to terminate a Participant’s employment or service on account of “disability,” as defined in any written employment agreement then in effect between the Participant and the Company or an affiliate, or in the absence of such an agreement, a condition entitling the Participant to receive benefits under a long-term disability plan of the Company or an affiliate or, in the absence of such a plan, the complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which a Participant was employed or served when such disability commenced or, as determined by the Company based upon medical evidence acceptable to it.
  - i. “Participation Deadline” with respect to a Plan Year shall mean January 1 of the Plan Year.
  - j. “Person” means any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act).
  - k. “Qualifying Termination” means a termination of employment eligible to receive benefits under the Company’s Severance Guidelines or Executive Severance Guidelines in accordance with the terms and conditions of such guidelines as may be amended from time to time.
  - l. “Retirement” means, unless otherwise set forth in an employment agreement with a Participant or specifically defined under local law for the purposes of payment of compensation for services, termination from the Company with age of at least 65.
17. **Governing Law.** For employees on U.S. payroll, the laws of the state of Tennessee shall govern all questions concerning the construction, validity and interpretation of the Plan, without regard to the state of Tennessee’s conflict of laws rules.
- For International employees, the laws of the country where the Participant permanently resides shall govern all questions concerning the construction, validity and interpretation of the Plan, without regard to the Country of Residence’s conflict of laws rules.

**CHANGE HEALTHCARE LLC**  
**U.S. EXECUTIVE SEVERANCE BENEFIT GUIDELINES**  
**(AMENDED AND RESTATED SEPTEMBER 18, 2019)**

**1. INTRODUCTION.**

The terms of the Change Healthcare LLC Executive Severance Benefit Guidelines (the “*Guidelines*”) are set forth below. The purpose of the Guidelines is to provide a framework to be used in the event that any of the Change Healthcare LLC, Participating Companies (collectively, the “*Company*”) decides to award severance to Eligible Executives who have a Qualifying Termination and who do not have a contractual entitlement to Severance Benefits. The determination as to which Executive is eligible to receive Severance Benefits in the event of a Qualifying Termination is within the Company’s sole discretion. The Company may amend, modify or terminate these Guidelines at any time with or without notice to Executives, including without limitation the right to establish Severance Benefits on an action by action basis in its sole discretion.

**2. EFFECTIVE DATE.**

These Guidelines are effective as of February 1, 2018. These Guidelines supersede any plan, program, guidelines, policy or arrangements previously in effect for the Executives by which Severance Benefits would be provided by the Company, with the exception of Executives who have entered into an individual employment agreement with the Company that provides for Severance Benefits.

**3. ELIGIBILITY FOR SEVERANCE BENEFITS.**

(a) **General Rules.** An executive of the Company in the executive career band “E”, who is a U.S. Eligible Paid Executive is entitled to receive Severance Benefits, subject to the conditions and requirements set forth in these Guidelines. These guidelines do not apply to the Chief Executive Officer.

(b) **Definitions.** The following definitions shall apply to these Guidelines:

(i) “**Affiliate**” means any Person that directly or indirectly controls, is controlled by, or is under common control with Change Healthcare Inc. The term “control” (including, with correlative meaning, the terms “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting or other securities, by contract, or otherwise.

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(ii) **“Cause”** means the following: (A) the Executive’s violation of any federal or state law or regulation applicable to the business of the Company or its affiliates; (B) the Executive being convicted of, or entering a plea of nolo contendere to any crime or committing any act of moral turpitude; (C) the Executive engaging in any act of dishonesty, fraud or misrepresentation; (D) the breach of any agreement between the Executive and the Company (or any affiliate of the Company), including but not limited to a breach of a restrictive covenant agreement; (E) the Executive’s habitual or willful neglect of duties; (F) the Executive’s breach of any duties owed to the Company, including but not limited to fiduciary duty and duty of care; or (G) the Executive’s failure to perform his or her assigned duties or responsibilities (other than a failure resulting from the Executive’s disability) after notice thereof from the Company describing the Executive’s failure to perform such duties or responsibilities. Notwithstanding the foregoing, if “Cause” is defined in an employment agreement between the Company and Executive then the meaning of “Cause” in the employment agreement shall apply.

(iii) **“Change in Control”** means (i) the acquisition (whether by purchase, merger, consolidation, combination, or other similar transaction) by any Person of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% (on a fully diluted basis) of either (A) the then-outstanding shares of Common Stock, taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, the exchange of exchangeable stock or units, and the exercise of any similar right to acquire such Common Stock; or (B) the combined voting power of the then outstanding voting securities of Change Healthcare Inc. entitled to vote generally in the election of directors, in the case of each of the foregoing clauses (A) and (B) assuming that all Units (as defined in the Company LLC Agreement) held by MCK Members (as defined in the Company LLC Agreement) had been exchanged for an equal number of shares of Common Stock; provided, however, that for purposes of the Plan, the following acquisitions shall not constitute a Change in Control: (I) any acquisition by Change Healthcare Inc. or any Affiliate; (II) any acquisition by any employee benefit plan sponsored or maintained by Change Healthcare Inc. or any Affiliate; or (III) any acquisition in connection with a Qualified MCK Exit (as defined in the Joint Venture LLC Agreement); (ii) during any period of 12 months, individuals who, at the beginning of such period, constitute the Board of Directors of Change Healthcare Inc. (the **“Board,”** the **“Incumbent Directors”**) cease for any reason to constitute at least a majority of the Board; provided, that any Person becoming a director subsequent to the Effective Date, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a

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specific vote or by approval of the proxy statement of Change Healthcare Inc. in which such Person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest, as such terms are used in Rule 14a-12 of Regulation 14A promulgated under the Exchange Act, with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board shall be deemed to be an Incumbent Director; or (iii) the sale, transfer, or other disposition of all or substantially all of the assets of Change Healthcare Inc. and the Company (taken as a whole) to any Person that is not an Affiliate of Change Healthcare Inc. or the Company.

(iv) “**COBRA Continuation**” means the continuation of medical, dental and/or vision benefits under the Company-sponsored group health plan that an Executive who is enrolled in such group health plan may elect pursuant to the requirements of the Consolidated Omnibus Budget Reconciliation Act of 1985 (commonly known as COBRA).

(v) “**COBRA Subsidy**” means, subject to the Eligible Executive being eligible to elect COBRA Continuation coverage, the Company’s payment, in lump sum, of the amount equal to the cost of such Eligible Executive’s COBRA Continuation premiums that the Company and Eligible Executive would pay if he or she elects COBRA Continuation for the number of months specified in Schedule A, as attached to these Guidelines.

(vi) “**Code**” means the Internal Revenue Code, as amended from time to time.

(vii) “**Common Stock**” means the common stock of Change Healthcare Inc., par value \$0.001 per share (and any stock or other securities into which such Common Stock may be converted or into which it may be exchanged).

(viii) “**Company**” means Change Healthcare LLC.

(ix) “**Company LLC Agreement**” means the Third Amended and Restated Limited Liability Company Agreement of Change Healthcare LLC, dated as of March 1, 2017.

(x) “**Comparable Employment**” means a position with the Company that is similar in job authority, duties, reporting structure, responsibilities, and is located within 50 miles of the Executive’s current worksite or with a relocation package; and with a salary equal to or greater than the Executive’s current salary.

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(xi) “**Eligible Executive**” means an Executive of the Company who has a Qualifying Termination. It is within the sole discretion of the Company to determine whether an Executive is an Eligible Executive.

(xii) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and any successor thereto. Reference in the Guidelines to any section of (or rule promulgated under) the Exchange Act shall be deemed to include any rules, regulations, or other interpretative guidance under such section or rule, and any amendments or successor provisions to such section, rules, regulations, or guidance.

(xiii) “**Executive**” means an employee of the Company at the E Compensation Grade.

(xiv) “**Guidelines**” means these Change Healthcare LLC Executive Severance Benefits Guidelines, as amended from time to time.

(xv) “**Participating Companies**” means any subsidiary or affiliate of Change Healthcare LLC, that is owned by no less than an 80% interest by Change Healthcare LLC, or any of its subsidiaries.

(xvi) “**Person**” means any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act).

(xvii) “**Qualifying Termination**” means that the Company involuntarily terminates without Cause the employment of an Executive, or any other constructive termination that the Executive and the Company have agreed constitutes a Qualifying Termination. It is within the sole discretion of the Company to determine whether a termination is a Qualifying Termination.

(xviii) “**Release**” means a waiver and release in favor of the Company and on the form provided by the Company. The waiver and release will apply to all claims, known and unknown, relating to the Executive’s employment with the Company through and including the date of execution. The contents of the general release will vary, depending on the state in which the affected Executive resides, the age of the Executive, and whether two or more employees are affected by the same action.

(xix) “**Severance Benefits**” means the amount of payments that an Eligible Executive may receive under these Guidelines.

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(c) **Eligibility.** In order to be eligible to receive Severance Benefits under these Guidelines, an Eligible Executive must not fall under one of the exceptions, as set forth in Section 3(d) of these Guidelines, and fulfill the following:

- (i) be actively employed until his or her date of termination as scheduled by the Company unless otherwise indicated by the Company.
- (ii) must execute and return a Release in accordance with the time periods set forth in the release agreement.

(d) **Exceptions.** An Executive who otherwise is an Eligible Executive will not receive Severance Benefits in any of the following circumstances:

(i) The Executive has executed an individually negotiated employment contract or agreement with the Company, which includes the provision of Severance Benefits upon his or her termination. Such Executive's Severance Benefits, if any, shall be governed by the terms of such individually negotiated employment contract or agreement. If these Guidelines would provide the Executive more benefits than the Executive's individual agreement, the Company may, at its sole discretion, offer the Executive the amount set forth herein;

(ii) The Executive voluntarily terminates employment with the Company. Voluntary terminations include, but are not limited to, resignation and retirement;

(iii) The Executive rejects an offer of Comparable Employment with the Company;

(iv) In connection with a Change in Control between the Company and another entity, the surviving entity (a "**Successor Employer**") employs Executive for the period of time outlined in Schedule A as attached to these Guidelines, after the Change in Control in the same position as he or she held immediately prior to the Change in Control or offers Comparable Employment to Executive.

If, during any period, the Company has not regarded an individual as an employee of the Company and, for that reason, has not withheld employment taxes with respect to that individual, then that individual shall not be an Eligible Executive for that period, even in the event that the individual is determined, retroactively, to have been an employee of the Company during all or any portion of that period.



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**4. AMOUNT OF SEVERANCE BENEFITS.**

Schedule A, attached to these Guidelines, sets forth the amount of the Severance Benefits that an Eligible Executive may receive pursuant to these Guidelines.

**5. EQUITY.**

When the Eligible Executive terminates employment, any outstanding stock options, restricted stock units or other equity grants will be treated as set forth in the applicable equity incentive plan and award agreements and/or any other related documents.

**6. OTHER EMPLOYMENT BENEFITS.**

(a) **COBRA Continuation.** Each Eligible Executive who is enrolled in a Company-sponsored health, dental or vision plan will be eligible for COBRA Continuation coverage. The Company will notify the individual of any such right to continue health coverage.

(b) **Other Employee Benefits.** All non-health benefits (such as life insurance and disability coverage) will terminate as of the Executive's last day of being physically present on the job, the last day of active employment with the Company, or the date of termination, as determined by the applicable plan documents and/or the Company in its sole discretion (except to the extent that the Executive elects and pays for any conversion privilege available). The Executive's right to benefits under the Company's 401(k) plan shall be determined exclusively by the plan and any of its related agreements.

(c) **Coordination with Other Plans.** Any Severance Benefits payable to the Eligible Executive under these Guidelines will not be counted as compensation for purposes of determining benefits under any other benefit policies or plans of the Company, except to the extent expressly provided therein.

**7. TIME AND FORM OF PAYMENT.**

Subject to the terms and conditions set forth in these Guidelines, Severance Benefits will be paid in a single lump sum on the first payroll date following the effective date of the Release, except as otherwise provided in Schedule A, as attached to these Guidelines. No Severance Benefits will be paid or provided until the expiration of any applicable revocation period. In no event will any Severance Benefits be paid or provided under these Guidelines if the Release does not become effective by fifteen (15) days prior to (i) the end of the short-term deferral period as defined in Treasury Regulation § 1.409A-1(b)(4) or (ii) the end of the second calendar year following the year in which the separation occurs, if the Severance Benefits are less than the maximum amount provided under Treasury Regulation § 1.409A-1(b)(9)(iii)(A).

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**8. NON-DUPLICATION OF BENEFITS.**

There will be no duplication of severance benefits that the Company or any of its affiliates pay or provide to the Eligible Executive, and that the Severance Benefits provided under these Guidelines are in lieu of any severance benefits for which the Eligible Executive might otherwise have been eligible under any plan, program, guidelines, policy or arrangement of the Company or any of its affiliates. To the extent necessary to avoid duplication of benefits, Severance Benefits paid or provided under these Guidelines will be reduced to offset severance benefits paid or provided to the Eligible Executive under any other plan, program, guidelines, policy or arrangement of the Company or any of its affiliates. Notwithstanding the foregoing, an Executive who has an employment agreement, in effect with the Company at the time of his or her termination of employment, that provides for severance payments and/or benefits shall not be eligible to be an Eligible Executive and shall not receive any Severance Benefits under these Guidelines.

**9. NOTICE.**

The Company may give at least two (2) weeks' non-working notice in advance of termination at the Company's sole discretion. If the effective date of the termination is immediate, then the Company may pay the Eligible Executive(s) an amount equal to two (2) weeks' salary in lieu of notice. However, the provision of notice and/or notice pay is at the Company's sole discretion, unless notice and/or notice pay is required by applicable law.

**10. NO IMPLIED EMPLOYMENT CONTRACT.**

Nothing in these Guidelines shall be deemed (a) to give any Executive any right to be retained in the employ of the Company, or (b) to interfere with the right of the Company to discharge any Executive at any time and for any reason, which right is hereby reserved. Nothing contained in these Guidelines alters or amends an Executive's status as an at-will employee. As an at-will employee, either the Executive or the Company may terminate the employment relationship with or without cause, with or without advance notice.

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## 11. REEMPLOYMENT.

If an Eligible Executive receives Severance Benefits pursuant to these Guidelines and is subsequently reemployed by the Company in reasonably Comparable Employment, such Eligible Executive shall be obligated to repay the Company any portion of Severance Benefits received that is in excess of the time the he or she was separated from the Company. For purposes of determining the repayment obligation, the Severance Benefits shall be converted to a “**Weekly Benefit Amount**,” which shall be calculated by dividing the Severance Benefits paid by the number of weeks of base salary payments that the Eligible Executive received as set forth in Schedule A, as attached to these Guidelines. The Weekly Benefit Amount multiplied by the number of whole weeks the Eligible Executive was separated from the Company shall be deducted from the total amount of Severance Benefits paid, and such Eligible Executive shall repay to the Company the difference between the two amounts.

## 12. Section 280G of the Code.

(a) Notwithstanding any other provision of these Guidelines or any other plan, arrangement or agreement to the contrary, if any of the payments or benefits provided or to be provided by the Company or its affiliates to the Eligible Executive or for the Eligible Executive’s benefit pursuant to the terms of these Guidelines or otherwise (“**Covered Payments**”) constitute parachute payments (“**Parachute Payments**”) within the meaning of Section 280G of the Code and would, but for this Section 12 be subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the “**Excise Tax**”), then prior to making the Covered Payments, a calculation shall be made comparing (i) the Net Benefit (as defined below) to the Eligible Executive of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to the Executive if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under (i) above is less than the amount under (ii) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax (that amount, the “**Reduced Amount**”). “**Net Benefit**” shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes.

(b) Any such reduction shall be made in accordance with Section 409A of the Code and the following:

(i) the Covered Payments which do not constitute nonqualified deferred compensation subject to Section 409A of the Code shall be reduced first; and

(ii) all other Covered Payments shall then be reduced as follows: (A) cash payments shall be reduced before non-cash payments; and (B) payments to be made on a later payment date shall be reduced before payments to be made on an earlier payment date.

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(c) Any determination required under this Section 12, including whether any payments or benefits are parachute payments, shall be made by the Company (or an accounting firm that the Company selects) in its sole discretion. The Eligible Executive shall provide the Company with such information and documents as the Company may reasonably request in order to make a determination under this Section 12. The Company's determination shall be final and binding on the Eligible Executive.

(d) It is possible that after the determinations and selections made pursuant to this Section 12 the Eligible Executive will receive Covered Payments that are in the aggregate more than the amount provided under this Section 12 ("**Overpayment**") or less than the amount provided under this Section 12 ("**Underpayment**").

(i) In the event that: (A) the Company determines, based upon the assertion of a deficiency by the Internal Revenue Service against either the Company or the Eligible Executive which the Company believes has a high probability of success, that an Overpayment has been made or (B) it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that has been finally and conclusively resolved that an Overpayment has been made, then the Eligible Executive shall pay any such Overpayment to the Company together with interest at the applicable federal rate (as defined in Section 7872(f)(2)(A) of the Code) from the date of the Eligible Executive's receipt of the Overpayment until the date of repayment.

(ii) In the event that: (A) the Company, based upon controlling precedent or substantial authority, determine that an Underpayment has occurred or (B) a court of competent jurisdiction determines that an Underpayment has occurred, any such Underpayment will be paid promptly by the Company to or for the benefit of the Eligible Executive together with interest at the applicable federal rate (as defined in Section 7872(f)(2)(A) of the Code) from the date the amount would have otherwise been paid to the Eligible Executive until the payment date.

(e) Notwithstanding the foregoing, the Company in its sole discretion may choose to put the Parachute Payments to a shareholder vote in accordance with Section 280G(b)(5)(B) and the regulations promulgated thereunder.

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### 13. GENERAL PROVISIONS.

(a) **Severability.** The invalidity or unenforceability of any provision of these Guidelines shall not affect the validity or enforceability of any other provision of the Guidelines. If any provision of these Guidelines is held by a court of competent jurisdiction to be illegal, invalid, void or unenforceable, such provision shall be deemed modified, amended and narrowed to the extent necessary to render such provision legal, valid, and enforceable, and the other remaining provisions of these Guidelines shall not be affected but shall remain in full force and effect.

(b) **Headings and Subheadings.** Headings and subheadings contained in these Guidelines are intended solely for convenience and no provision of these Guidelines is to be construed by reference to the heading or subheading of any section or paragraph.

(c) **Unfunded Obligations.** The amounts to be paid to Eligible Executives under these Guidelines are unfunded obligations of the Company. The Company is not required to segregate any monies or other assets from its general funds with respect to these obligations. Eligible Executives shall not have any preference or security interest in any assets of the Company other than as a general unsecured creditor.

(d) **Successors.** These Guidelines will be binding upon any successor to the Company, its assets, its businesses or its interest, in the same manner and to the same extent that the Company would be obligated under the Guidelines if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by these Guidelines, the Company shall require any successor to the Company to expressly and unconditionally assume these Guidelines in writing and honor the obligations of the Company hereunder, in the same manner and to the same extent that the Company would be required to perform if no succession had taken place. All payments and benefits that become due to an Eligible Executive under these Guidelines will inure to the benefit of his or her heirs, assigns, designees, or legal representatives.

(e) **Transfer and Assignment.** Neither an Eligible Executive nor any other person shall have any right to sell, assign, transfer, pledge, anticipate or otherwise encumber, transfer, hypothecate or convey any amounts payable under these Guidelines prior to the date that such amounts are paid, except that, in the case of an Eligible Executive's death, such amounts shall be paid to his or her estate.

(f) **Waiver.** Any party's failure to enforce any provision or provisions of these Guidelines will not in any way be construed as a waiver of any such provision or provisions, nor prevent any party from thereafter enforcing each and every other provision of the Guidelines.

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(g) **Governing Law.** To the extent not pre-empted by federal law, these Guidelines shall be construed in accordance with and governed by the laws of Tennessee without regard to conflicts of law principles.

(h) **Clawback.** Any payment made under the Guidelines shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with (i) any clawback, forfeiture or similar policy adopted by Change Healthcare Inc., whether in existence as of the Effective Date or later adopted by Change Healthcare Inc.) and (ii) any applicable law or government regulation. Further, unless otherwise determined by the Compensation Committee of Change Healthcare Inc., to the extent that the Participant receives any amount in excess of the amount that the Participant should otherwise have received under the terms of the Guidelines for any reason (including, without limitation, by reason of a financial restatement, mistake in calculations or other administrative error), the Participant shall be required to repay any such excess amount to Change Healthcare Inc. Change Healthcare Inc. will make any determination for clawback, forfeiture or recovery in its sole discretion and in accordance with any applicable law, government regulation or Change Healthcare Inc. policy, as applicable. By participating in these Guidelines the Participant consents to such deductions being made by Change Healthcare Inc.

(i) **Withholding.** The Company shall have the right to withhold from any amount payable hereunder any Federal, state, and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

(j) **Section 409A of the Code.**

(i) These Guidelines are intended to comply with Section 409A of the Code or an exemption thereunder and shall be construed and administered in accordance with Section 409A of the Code. Notwithstanding any other provision of the Guidelines, payments provided under the Guidelines may only be made upon an event and in a manner that complies with Section 409A of the Code or an applicable exemption. Any payments under the Guidelines that may be excluded from Section 409A of the Code either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A of the Code to the maximum extent possible. For purposes of Section 409A of the Code, each installment payment or benefit provided under the Guidelines shall be treated as a separate payment. Any payments subject to and not exempt from Section 409A is to be made under the Guidelines upon a termination of employment shall only be made upon a "separation from service" under Section 409A of the Code. Although the Company intends to administer these Guidelines so that they shall comply with the requirements of 409A, the

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Company does not represent or warrant that these Guidelines shall comply with Section 409A or any other provision of federal, state, local or non-United States law. The Company, or either of its directors, officers, employees or advisers shall not be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by a Eligible Executive as a result of compensation paid under the Guidelines, and shall have no obligation to indemnify or otherwise protect an Eligible Executive from the obligation to pay any taxes pursuant to Section 409A.

(ii) Notwithstanding any other provision of the Guidelines, if any payment or benefit provided to an Eligible Executive in connection with his or her Qualifying Termination is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code and the Eligible Executive is determined to be a “specified employee” as defined in Section 409A(a)(2)(b)(i) of the Code, then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Qualifying Termination or, if earlier, on the Eligible Executive’s death (the “***Specified Employee Payment Date***”). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to the Eligible Executive in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. Notwithstanding any other provision of the Guidelines, if any payment or benefit is conditioned on the Eligible Executive’s execution of a Release, the first payment shall include all amounts that would otherwise have been paid to the Eligible Executive during the period beginning on the date of the Qualifying Termination and ending on the payment date if no delay had been imposed. If the consideration and revocation period of the Release crosses over two (2) calendar years, then the Severance Benefits shall be paid or begin being paid (taking the preceding sentence into effect), on the later of (A) the first payroll date in the second calendar year, or (B) the first payroll date following the effective date of the Release.

(iii) To the extent required by Section 409A of the Code, each reimbursement or in-kind benefit provided under the Guidelines shall be provided in accordance with the following: (A) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; and (B) any right to reimbursements or in-kind benefits under the Guidelines shall not be subject to liquidation or exchange for another benefit.

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## SCHEDULE A

### Severance Benefits Schedule

#### **U.S Executives (excluding the Chief Executive Officer) in the Executive “E” Career Band**

##### **Qualifying Termination Not in Connection with a Change in Control**

**Base:** Eligible Executive shall be eligible to receive a lump sum payment equivalent to twelve (12) months of base salary in effect on the date of the Qualifying Termination.

**COBRA Subsidy:** Eligible Executive shall be eligible to receive payment of, in lump sum, an amount equivalent to the COBRA health insurance premiums that the Company and Eligible Executive would pay for employees with similar coverage during the twelve (12) month period following Eligible Executive’s termination.

##### **Qualifying Termination in Connection with a Change in Control**

If Eligible Executive’s Qualifying Termination occurs upon a Change in Control, or within twelve (12) months after a Change in Control, Eligible Executive shall be eligible to receive a lump sum payment equivalent to the sum of:

- Twelve (12) months of base salary in effect on the date of the Qualifying Termination;
- The bonus Eligible Executive would have received under the Annual Incentive Plan (“AIP”) in effect at the time of such Qualifying Termination, at one times the Eligible Executive’s full target payout rate for the year in which the Qualifying Termination occurs; and
- The COBRA health insurance premiums that the Company and Eligible Executive would pay for employees with similar coverage during the twelve (12) month period following Eligible Executive’s termination;

provided, however, that (i) the sum of the above-described benefits payable to Eligible Executive in connection with a Change in Control may be subject to reduction as described in Section 12 of the Guidelines and/or (ii) in connection with a Change in Control, the Compensation Committee of Change Healthcare Inc. shall have the discretion to make changes to the Guidelines and benefits payable hereunder as the Compensation Committee of Change Healthcare Inc., in its sole discretion, deems to be equitable and appropriate.



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**Eligibility Exception:** In accordance with section 3(d)(iv), twelve (12) months.

## SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Neil E. de Crescenzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Change Healthcare Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Neil E. de Crescenzo

Name: Neil E. de Crescenzo

Title: President and Chief Executive Officer of Change Healthcare Inc.

## SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Fredrik Eliasson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Change Healthcare Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Fredrik Eliasson  
Name: Fredrik Eliasson  
Title: Executive Vice President and Chief Financial Officer of Change Healthcare Inc.

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Change Healthcare Inc. (the "Company") on Form10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Neil E. de Crescenzo, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in my capacity as an officer of the Company, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By:	<u>/s/ Neil E. de Crescenzo</u>
Name:	Neil E. de Crescenzo
Title:	President and Chief Executive Officer of Change Healthcare Inc.

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Change Healthcare Inc. (the "Company") on Form10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Fredrik Eliasson, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in my capacity as an officer of the Company, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By: /s/ Fredrik Eliasson  
Name: Fredrik Eliasson  
Title: Executive Vice President and  
Chief Financial Officer of Change Healthcare Inc.

**Financial Information of Significant Equity Method Investee  
Change Healthcare LLC**

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## EXPLANATORY NOTE

### *Unconsolidated Significant Subsidiary*

Change Healthcare Inc.'s ("the Company") primary asset is its interest in the Joint Venture which is accounted for using the equity method. As the Company's investment in the Joint Venture is considered to be significant, the Joint Venture's annual financial statements are required to be included as an exhibit to each Company Annual Report on Form 10-K in accordance with SEC Rule 3-09 of Regulation S-X. Given the significance of this investment to the financial position and results of operations of the Company, however, we have elected to include financial information of the Joint Venture in this Quarterly Report on Form 10-Q.

**Change Healthcare LLC**  
**Condensed Consolidated Statements of Operations**  
(unaudited and amounts in thousands, except unit and per unit data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue:</b>				
Solutions revenue	\$ 738,701	\$ 737,786	\$ 1,535,773	\$ 1,495,491
Postage revenue	57,110	62,404	115,594	127,962
Total revenue	795,811	800,190	1,651,367	1,623,453
<b>Operating expenses:</b>				
Cost of operations (exclusive of depreciation and amortization below)	331,234	327,563	658,181	664,993
Research and development	51,783	51,243	101,122	106,567
Sales, marketing, general and administrative	190,039	207,105	383,312	414,019
Customer postage	57,110	62,404	115,594	127,962
Depreciation and amortization	77,448	69,258	148,764	137,785
Accretion and changes in estimate with related parties, net	3,214	5,932	7,094	9,756
Gain on Sale of the Extended Care Business	—	(111,392)	—	(111,392)
<b>Total operating expenses</b>	<b>710,828</b>	<b>612,113</b>	<b>1,414,067</b>	<b>1,349,690</b>
<b>Operating income (loss)</b>	<b>84,983</b>	<b>188,077</b>	<b>237,300</b>	<b>273,763</b>
<b>Non-operating (income) and expense</b>				
Interest expense, net	69,901	80,677	153,307	159,226
Loss on extinguishment of debt	16,900	—	16,900	—
Contingent consideration	1,700	(72)	909	200
Other, net	(4,386)	(3,849)	(8,164)	(9,381)
<b>Total non-operating (income) and expense</b>	<b>84,115</b>	<b>76,756</b>	<b>162,952</b>	<b>150,045</b>
<b>Income (loss) before income tax provision (benefit)</b>	<b>868</b>	<b>111,321</b>	<b>74,348</b>	<b>123,718</b>
<b>Income tax provision (benefit)</b>	<b>998</b>	<b>(2,119)</b>	<b>2,563</b>	<b>(2,228)</b>
<b>Net income (loss)</b>	<b>\$ (130)</b>	<b>\$ 113,440</b>	<b>\$ 71,785</b>	<b>\$ 125,946</b>
<b>Net income (loss) per common unit:</b>				
Basic	\$ —	\$ 0.45	\$ 0.25	\$ 0.50
Diluted	\$ —	\$ 0.45	\$ 0.25	\$ 0.50
<b>Weighted average common units outstanding:</b>				
Basic	318,219,028	251,501,744	285,107,046	251,550,892
Diluted	323,970,033	253,333,940	288,809,850	253,390,770

See accompanying notes to condensed consolidated financial statements.



**Change Healthcare LLC**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
(unaudited and amounts in thousands)

	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Net income (loss)</b>	\$ (130)	\$ 113,440	\$ 71,785	\$ 125,946
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustment	3,812	1,886	4,568	(6,752)
Changes in fair value of interest rate cap, net of taxes	(3,156)	4,925	(21,254)	7,529
<b>Other comprehensive income (loss)</b>	656	6,811	(16,686)	777
<b>Total comprehensive income (loss)</b>	<u>\$ 526</u>	<u>\$ 120,251</u>	<u>\$ 55,099</u>	<u>\$ 126,723</u>

See accompanying notes to condensed consolidated financial statements.

**Change Healthcare LLC**  
**Condensed Consolidated Balance Sheets**  
(unaudited and amounts in thousands)

	September 30, 2019	March 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 72,992	\$ 47,718
Restricted cash	—	1,176
Accounts receivable, net of allowance for doubtful accounts	675,306	759,502
Contract assets	139,111	—
Prepaid expenses and other current assets	155,019	172,067
Assets held for sale (see Note 14)	29,562	—
Total current assets	1,071,990	980,463
Property and equipment, net	160,305	197,263
Goodwill	3,295,381	3,284,266
Intangible assets, net	1,261,290	1,320,161
Other noncurrent assets, net	500,627	421,985
<b>Total assets</b>	<u>\$ 6,289,593</u>	<u>\$ 6,204,138</u>
<b>Liabilities and members' equity</b>		
Current liabilities:		
Drafts and accounts payable	\$ 64,010	\$ 98,550
Accrued expenses	315,419	316,179
Deferred revenues	337,371	437,636
Due to related parties, net	23,230	34,629
Current portion of long-term debt	26,644	2,789
Total current liabilities	766,674	889,783
Long-term debt, excluding current portion	4,944,395	5,787,150
Deferred income tax liabilities	110,016	106,099
Tax receivable agreement obligations to related parties	199,876	212,698
Other long-term liabilities	112,812	113,194
Commitments and contingencies (see Note 6)		
<b>Members' equity (deficit)</b>	155,820	(904,786)
<b>Total liabilities and members' equity</b>	<u>\$ 6,289,593</u>	<u>\$ 6,204,138</u>

See accompanying notes to condensed consolidated financial statements.

**Change Healthcare LLC**  
**Condensed Consolidated Statements of Members' Equity (Deficit)**  
(unaudited and amounts in thousands)

	2019	2018
<b>Balance at March 31</b>	<b>\$ (904,786)</b>	<b>\$ (1,066,180)</b>
Cumulative effect of a change in accounting principle-revenue recognition	159,877	—
Advances to Member	—	(208)
Repurchase of equity awards	—	(4,838)
Capital contribution from Member from exercise of equity awards	—	205
Equity compensation expense	5,862	5,300
Net income (loss)	71,915	12,506
Foreign currency translation adjustment	756	(8,638)
Change in fair value of interest rate cap agreements, net of taxes	(18,098)	2,604
Other	(409)	456
<b>Balance at June 30</b>	<b>\$ (684,883)</b>	<b>\$ (1,058,793)</b>
Advances to Members, net	—	2,844
Repurchase of equity awards	—	(2,249)
Capital contribution from Member from exercise of equity awards	1,139	—
Issuance of LLC units for IPO proceeds	601,429	—
Issuance of tangible equity units	230,154	—
Equity compensation expense	8,565	2,969
Net income (loss)	(130)	113,440
Foreign currency translation adjustment	3,812	1,886
Change in fair value of interest rate cap agreements, net of taxes	(3,156)	4,925
Other	(1,110)	(192)
<b>Balance at September 30</b>	<b>\$ 155,820</b>	<b>\$ (935,170)</b>

See accompanying notes to condensed consolidated financial statements.

**Change Healthcare LLC**  
**Condensed Consolidated Statements of Cash Flows**  
(unaudited and amounts in thousands)

	<b>Six Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 71,785	\$ 125,946
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	148,764	137,785
Amortization of capitalized software developed for sale	6,698	7,378
Accretion and changes in estimate, net	7,094	9,756
Equity compensation	15,207	8,269
Deferred income tax expense (benefit)	1,473	(3,013)
Amortization of debt discount and issuance costs	9,941	10,964
Contingent consideration	909	200
Gain on Sale of the Extended Care Business	—	(111,392)
Loss on extinguishment of debt	16,900	—
Other	(111)	538
Changes in operating assets and liabilities:		
Accounts receivable	54,240	6,730
Contract assets	12,688	—
Prepaid expenses and other	(8,583)	(16,373)
Accounts payable	(15,209)	(32,035)
Accrued expenses and other liabilities	(16,311)	142,707
Deferred revenue	(69,471)	(75,074)
Due to related party, net	(12,150)	15,482
<b>Net cash provided by (used in) operating activities</b>	<b>223,864</b>	<b>227,868</b>
<b>Cash flows from investing activities:</b>		
Capitalized expenditures	(129,847)	(124,631)
Proceeds from Sale of the Extended Care Business	—	160,244
Investments in businesses	(18,946)	—
<b>Net cash provided by (used in) investing activities</b>	<b>(148,793)</b>	<b>35,613</b>
<b>Cash flows from financing activities:</b>		
Payments of third party initial public offering and loan costs	(8,554)	—
Payments under tax receivable agreements with related parties	(27,227)	(25,096)
Payments on Term Loan Facility	(902,750)	(76,500)
Receipts (payments) on derivative instruments	3,109	2,090
Payments of deferred financing obligations	—	(3,432)
Capital contribution from Members from exercise of equity awards	1,139	205
Repurchase of equity awards	—	(5,305)
Proceeds from Change Healthcare Inc. initial public offering	608,679	—
Proceeds from debt issued to Change Healthcare Inc.	47,367	—
Proceeds from forward purchase contract with Change Healthcare Inc.	232,929	—
Advances to and refunds from Change Healthcare Inc.	(2,590)	2,636
Payment of debt issued to Change Healthcare Inc.	(3,621)	—
Other	247	598
<b>Net cash provided by (used in) financing activities</b>	<b>(51,272)</b>	<b>(104,804)</b>
Effect of exchange rate changes on cash and cash equivalents	299	(672)
Net increase (decrease) in cash, cash equivalents and restricted cash	24,098	158,005
Cash, cash equivalents and restricted cash at beginning of period	48,894	50,011
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 72,992</b>	<b>\$ 208,016</b>

See accompanying notes to condensed consolidated financial statements.

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## **1. Nature of Business and Organization**

### ***Nature of Business***

Change Healthcare LLC (the “Joint Venture”), is a leading independent healthcare technology platform that provides data and analytics-driven solutions to improve clinical, financial and patient engagement outcomes in the U.S. healthcare system. The Joint Venture offers a comprehensive suite of software, analytics, technology enabled solutions that drive improved results in the complex workflows of healthcare system payers and providers.

### ***Organization***

In June 2016, Change Healthcare Inc., the Joint Venture, Change Healthcare Holdings, LLC, Change Healthcare Intermediate Holdings, LLC, Change Healthcare Performance, Inc. (“Legacy CHC”) and its stockholders—including affiliates of The Blackstone Group, L.P. (“Blackstone”) and Hellman & Friedman LLC (“Hellman & Friedman”)—entered into an Agreement of Contribution and Sale (the “Contribution Agreement”) with McKesson Corporation (“McKesson”, together with Change Healthcare Inc., the “Members”). Under the terms of the Contribution Agreement, the parties agreed to form the Joint Venture, a joint venture that combined the majority of the McKesson Technology Solutions businesses, excluding McKesson’s Enterprise Information Solutions business and RelayHealth Pharmacy Network (such contributed businesses, “Core MTS”) with substantially all of the assets and operations of Legacy CHC, but excluding Legacy CHC’s pharmacy claims switching and prescription routing businesses (such excluded businesses, the “eRx Network” and the businesses contributed by Legacy CHC, together with Core MTS, the “Contributed Businesses”). The creation of the Joint Venture, including the contribution of the Contributed Businesses and related transactions, is collectively referred to as the “Transactions”. The Transactions closed on March 1, 2017.

### ***Basis of Accounting***

Due to the existence of shared control among the Members over all major financial and operating decisions of the Joint Venture and its consolidated subsidiaries, the assets and liabilities contributed to the Joint Venture were recognized in the accompanying condensed consolidated financial statements at their historical carrying values (i.e., joint venture accounting).

### ***Change Healthcare Inc. Initial Public Offering***

Effective July 1, 2019, Change Healthcare Inc. completed its initial public offering of 49,285,713 of common stock and a concurrent offering of 5,750,000 of tangible equity units (“TEUs”). The proceeds of the offering of common stock were subsequently contributed to the Joint Venture in exchange for an additional 49,285,713 units of the Joint Venture (“LLC Units”), which together with the Company’s existing holdings represents an approximately 41% interest in the Joint Venture. The proceeds of the offering of TEUs were used to acquire instruments of the Joint Venture that, in economic terms, substantially mirror the terms of the TEUs included in Change Healthcare Inc.’s offering. The net proceeds received from Change Healthcare Inc. from the offering of common stock and the offering of TEUs were \$603,787 and \$276,633, respectively, and the Joint Venture, in turn, used the proceeds to repay \$805,000 of its indebtedness under the Term Loan Facility without penalty in July 2019. The Joint Venture repaid an additional \$85,000 of its indebtedness under the Term Loan Facility without penalty during the three months ended September 30, 2019 for a total paydown of \$890,000. However, due to the presence of unamortized discounts and debt issuance costs, the Joint Venture recognized a loss on extinguishment of debt of approximately \$15,791 during the three and six months ended September 30, 2019.

### ***Amendment of Revolving Credit Facility***

Additionally, in July 2019, the Joint Venture amended its Revolving Credit Facility, the primary effects of which were to increase the maximum amount that can be borrowed from \$500,000 to \$785,000 and to extend the maturity date until July 3, 2024. In the event that the outstanding balance under the Term Loan Facility exceeds \$1,100,000 on December 1, 2023, however, amounts due, if any, under the Revolving Facility become due and payable on December 1, 2023. In connection with this amendment, a portion of the debt was deemed extinguished, and the Joint Venture recognized a loss on extinguishment of \$1,109 during the three and six months ended September 30, 2019.

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## **2. Basis of Presentation**

### ***Principles of Consolidation***

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

### ***Tangible Equity Units***

In connection with the initial public offering of Change Healthcare Inc., the Joint Venture completed an offering of TEUs that were issued to Change Healthcare Inc. Each TEU comprises an amortizing note and purchase contract, both of which are freestanding instruments and separate units of account. The amortizing notes were issued at par and are classified as debt on the accompanying condensed consolidated balance sheet, with scheduled principal payments over the next twelve months reflected in current maturities of long-term debt. The purchase contracts are accounted for as prepaid forward contracts and classified as equity. The TEU proceeds and issuance costs were allocated to the amortizing notes and purchase contracts on a relative fair value basis, consistent with the methodology utilized by Change Healthcare Inc. See Note 12 for further discussion.

### ***Accounting Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Joint Venture bases its estimates on historical experience, current business factors and various other assumptions that the Joint Venture 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 expenses and disclosure of contingent assets and liabilities. The Joint Venture is subject to uncertainties such as the impact of future events, economic, environmental and political factors and changes in the Joint Venture's business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the preparation of the Joint Venture's financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Joint Venture's operating environment changes. 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 condensed 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 cap agreement obligations; contingent consideration; loss accruals; the carrying value of long-lived assets (including goodwill and intangible assets); the classification and measurement of assets held for sale; the measurement of the components of tangible equity units; 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.

### ***Allowance for Doubtful Accounts***

The allowance for doubtful accounts of \$21,796 and \$20,438 at September 30, 2019 and March 31, 2019, respectively, reflects the Joint Venture's best estimate of losses inherent in the Joint Venture's receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.

### ***Accounting Pronouncements Not Yet Adopted***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, which generally requires that all lease obligations be recognized on the balance sheet at the present value of the remaining lease payments with a corresponding lease asset. As originally issued, the standard required that companies adopt the standard using the modified retrospective transition method and report a cumulative effect adjustment to the opening balance of retained earnings in the earliest comparative period presented. In July 2018, the FASB issued ASU No. 2018-11 which provides companies with the

option to apply this cumulative effect adjustment to the opening balance of retained earnings in the period of adoption instead of the earliest comparative period presented. This update is scheduled to be effective for the Joint Venture beginning April 1, 2020, with early adoption permitted. The Joint Venture is currently assessing both the method of adoption and the potential effects this update may have on its condensed consolidated financial statements.

In June 2016, the FASB issued ASUNo. 2016-13, as amended by ASUNo. 2018-19, which requires that a financial asset (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This update is scheduled to be effective for the Joint Venture beginning April 1, 2021, with early adoption permitted beginning April 1, 2019. The Joint Venture is currently assessing the potential effects this update may have on its condensed consolidated financial statements.

In August 2018, the FASB issued ASUNo. 2018-13, which modifies the disclosure requirements related to fair value measurements based on the FASB Concepts Statements. This update eliminates certain disclosures, modifies others and, in certain cases, requires additional disclosures. This update is effective for the Joint Venture beginning April 1, 2020, with earlier adoption permitted. The Joint Venture is currently assessing the potential effects this update may have on its condensed consolidated financial statements.

In August 2018, the FASB issued ASUNo. 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update also requires that the effects of such capitalized costs be classified in the same respective caption of the statement of operations, balance sheet and cash flows as the underlying hosting arrangement. Upon adoption, a company may elect to either retrospectively restate each prior reporting period or apply the update prospectively to all implementation costs incurred after the effective date. This update is scheduled to be effective for the Joint Venture beginning April 1, 2020, with early adoption permitted. The Joint Venture is currently assessing both the method of adoption and the potential effects this update may have on its condensed consolidated financial statements.

#### ***Recently Adopted Accounting Pronouncements***

In April 2019, the Joint Venture adopted FASB ASUNo. 2018-16, which adds the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a benchmark interest rate for hedging purposes. As the adoption of this update applies only to qualifying new or redesignated hedging relationships entered into following the date of adoption, its adoption has no immediate effect on the Joint Venture's condensed consolidated financial statements.

In April 2019, the Joint Venture adopted FASB ASUNo. 2018-02, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Legislation"). Because the Joint Venture's financial statements do not separately classify the components of members' deficit, the effect of the adoption of this update was limited to the separate disclosure in Note 10 related to the reclassification of such stranded costs from accumulated comprehensive income (loss) to accumulated deficit.

In April 2019, the Joint Venture adopted FASB ASUNo. 2018-07, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Among other provisions, the measurement date for awards to nonemployees changed from the earlier of the date at which a commitment for performance by the counterparty is reached or the date at which performance is complete under the previous guidance to the grant date under this update. Because the Joint Venture's equity-based compensation was previously subject to remeasurement at fair value each quarter under the previous authoritative literature, the effect of the adoption of this update had no material effect on the Joint Venture's condensed consolidated financial statements.

In April 2019, the Joint Venture adopted Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, which replaced most prior general and industry specific revenue recognition guidance with a principles-based comprehensive revenue recognition framework. Under this revised framework, a company recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. All of the Joint Venture's revenue is accounted for under ASC 606.

The Joint Venture adopted ASC 606 using the modified retrospective transition method applied only to contracts that were not completed as of the date of initial application. The Joint Venture has also elected the contract modification transition practical expedient, and as a result, will treat all contract modifications entered into prior to adoption date as if they were part of the original

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contract. The adoption of the new revenue standard utilizing these transition methods resulted in a cumulative effect adjustment that reduced members' equity (deficit) as of April 1, 2019 by \$159,877. After assessing all potential impacts of adopting the new standard on its consolidated financial statements, related disclosures, and necessary control and process changes, the Joint Venture has noted the following to be the most notable impacts of adopting the new standard:

- Revenue for certain contingent fee service arrangements will be accelerated as revenue for these arrangements is recognized as the services are performed.
- Revenue related to certain time-based software and content license agreements will be accelerated. The license component for certain time-based software will be recognized upon delivery to the customer ("point in time"), or in the case of software that requires significant production, modification or customization, recognized as the implementation work is performed. A non-license component (e.g., technical support) will be recognized over the respective contract terms ("over time").
- Incremental costs to obtain contracts and qualifying costs to fulfill will be capitalized and amortized over the period of benefit. The net result of this change was an increase to capitalized contract costs on the balance sheet; these capitalized costs will be amortized and recognized as expense over an incrementally longer period of time.



The following tables represent the impact of the new standard on the Joint Venture's unaudited financial statements as of and for the three and six months ended September 30, 2019:

	Three Months Ended September 30,				Six Months Ended September 30,			
	2019			2018	2019			2018
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
<b>Revenue:</b>								
Solutions revenue	\$ 738,701	\$ 9,945	\$ 748,646	\$ 737,786	\$ 1,535,773	\$ (31,586)	\$ 1,504,187	\$ 1,495,491
Postage revenue	57,110	—	57,110	62,404	115,594	—	115,594	127,962
Total revenue	795,811	9,945	805,756	800,190	1,651,367	(31,586)	1,619,781	1,623,453
<b>Operating expenses:</b>								
Cost of operations (exclusive of depreciation and amortization below)	331,234	996	332,230	327,563	658,181	1,804	659,985	664,993
Research and development	51,783	—	51,783	51,243	101,122	—	101,122	106,567
Sales, marketing, general and administrative	190,039	4,595	194,634	207,105	383,312	9,764	393,076	414,019
Customer postage	57,110	—	57,110	62,404	115,594	—	115,594	127,962
Depreciation and amortization	77,448	—	77,448	69,258	148,764	—	148,764	137,785
Accretion and changes in estimate with related parties, net	3,214	—	3,214	5,932	7,094	—	7,094	9,756
Gain on Sale of the Extended Care Business	—	—	—	(111,392)	—	—	—	(111,392)
Impairment of long-lived assets and related costs	—	—	—	—	—	—	—	—
<b>Total operating expenses</b>	<b>710,828</b>	<b>5,591</b>	<b>716,419</b>	<b>612,113</b>	<b>1,414,067</b>	<b>11,568</b>	<b>1,425,635</b>	<b>1,349,690</b>
<b>Operating income (loss)</b>	<b>84,983</b>	<b>4,354</b>	<b>89,337</b>	<b>188,077</b>	<b>237,300</b>	<b>(43,154)</b>	<b>194,146</b>	<b>273,763</b>
<b>Non-operating (income) and expense</b>								
Interest expense, net	69,901	—	69,901	80,677	153,307	—	153,307	159,226
Loss on extinguishment of debt	16,900	—	16,900	—	16,900	—	16,900	—
Contingent consideration	1,700	—	1,700	(72)	909	—	909	200
Other, net	(4,386)	—	(4,386)	(3,849)	(8,164)	—	(8,164)	(9,381)
<b>Total non-operating (income) and expense</b>	<b>84,115</b>	<b>—</b>	<b>84,115</b>	<b>76,756</b>	<b>162,952</b>	<b>—</b>	<b>162,952</b>	<b>150,045</b>
<b>Income (loss) before income tax provision (benefit)</b>	<b>868</b>	<b>4,354</b>	<b>5,222</b>	<b>111,321</b>	<b>74,348</b>	<b>(43,154)</b>	<b>31,194</b>	<b>123,718</b>
<b>Income tax provision (benefit)</b>	<b>998</b>	<b>(32)</b>	<b>966</b>	<b>(2,119)</b>	<b>2,563</b>	<b>(2,283)</b>	<b>280</b>	<b>(2,228)</b>
<b>Net income (loss)</b>	<b>\$ (130)</b>	<b>\$ 4,386</b>	<b>\$ 4,256</b>	<b>\$ 113,440</b>	<b>\$ 71,785</b>	<b>\$ (40,871)</b>	<b>\$ 30,914</b>	<b>\$ 125,946</b>
<b>Net income (loss) per common unit:</b>								
Basic	\$ —	\$ 0.01	\$ 0.01	\$ 0.45	\$ 0.25	\$ (0.14)	\$ 0.11	\$ 0.50
Diluted	\$ —	\$ 0.01	\$ 0.01	\$ 0.45	\$ 0.25	\$ (0.14)	\$ 0.11	\$ 0.50

	September 30, 2019			March 31, 2019
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 72,992	\$ —	\$ 72,992	\$ 47,718
Restricted cash	—	—	—	1,176
Accounts receivable, net of allowance for doubtful accounts	675,306	15,814	691,120	759,502
Contract assets	139,111	(139,111)	—	—
Prepaid expenses and other current assets	155,019	20,914	175,933	172,067
Assets held for sale	29,562	—	29,562	—
Total current assets	1,071,990	(102,383)	969,607	980,463
Property and equipment, net	160,305	—	160,305	197,263
Goodwill	3,295,381	—	3,295,381	3,284,266
Intangible assets, net	1,261,290	—	1,261,290	1,320,161
Other noncurrent assets, net	500,627	(40,520)	460,107	421,985
<b>Total assets</b>	<b>\$6,289,593</b>	<b>\$(142,903)</b>	<b>\$6,146,690</b>	<b>\$ 6,204,138</b>
<b>Liabilities and members' equity</b>				
Current liabilities:				
Drafts and accounts payable	\$ 64,010	\$ —	\$ 64,010	\$ 98,550
Accrued expenses	315,419	—	315,419	316,179
Deferred revenues	337,371	57,881	395,252	437,636
Due to related parties, net	23,230	—	23,230	34,629
Current portion of long-term debt	26,644	—	26,644	2,789
Total current liabilities	766,674	57,881	824,555	889,783
Long-term debt, excluding current portion	4,944,395	—	4,944,395	5,787,150
Deferred income tax liabilities	110,016	—	110,016	106,099
Tax receivable agreement obligations to related parties	199,876	—	199,876	212,698
Other long-term liabilities	112,812	—	112,812	113,194
Commitments and contingencies	—	—	—	—
<b>Members' equity (deficit)</b>	<b>155,820</b>	<b>(200,784)</b>	<b>(44,964)</b>	<b>(904,786)</b>
<b>Total liabilities and members' equity</b>	<b>\$6,289,593</b>	<b>\$(142,903)</b>	<b>\$6,146,690</b>	<b>\$ 6,204,138</b>

The adoption of the new standard had an immaterial impact on the Joint Venture's unaudited statement of cash flows for the three and six months ended September 30, 2019. See Note 3, *Revenue Recognition* for more information.

### 3. Revenue Recognition

The Joint Venture generates most of its solutions revenue by using technology solutions (generally Software as a Service ("SaaS")) to provide services to its customers that automate and simplify business and administrative functions for payers, providers, pharmacies, and channel partners and through the licensing of software, software systems (consisting of software, hardware and maintenance support) and content.

The Joint Venture recognizes revenue when the customer obtains control of the good or service through the Joint Venture satisfying a performance obligation by transferring the promised good or service to the customer.

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## **Principal Revenue Generating Products and Services**

*Content license subscriptions and time-based software*—The Joint Venture’s content license subscriptions and time-based software arrangements provide a license to use a software for a specified period of time. At the end of the contractual period, the customer either renews the license for an additional term or ceases to use the software. Software licenses are typically delivered to the customer with functionality that the customer can benefit from the software on its own or together with readily available resources. As contracts for these solutions generally do not price individual components separately, the Joint Venture allocates the transaction price to the license and ongoing support performance obligations based on standalone selling price (“SSP”), primarily determined by historical value relationships between licenses and ongoing support and updates. Revenue allocated to content license subscriptions and time-based software license agreements is generally recognized at the point-in-time of delivery of the license or the content update upon transfer of control of the underlying license to the customer. Generally, software implementation fees are recognized over the implementation period through an input measure of progress method. Revenue allocated to maintenance and support is recognized ratably over the period covered by the agreements, as passage of time represents a faithful depiction of the transfer of these services. In some cases, software arrangements provide licenses to several software applications that are highly integrated with the implementation services and software updates and cannot function separately. The bundle is a single performance obligation since the individually promised goods and services are not distinct in the context of the contract because the related implementation services significantly modify and customize the software and the updates provided to the integrated software solution are critical to the software’s utility. The related revenue is recognized on a straight-line basis, ratably over the contractual term due to the frequency and criticality of the updates throughout the license period.

*Contingent fee services*—The Joint Venture provides services to customers in which the transaction price is contingent on future occurrences, such as savings generated or amounts collected on behalf of its customers through the delivery of its services. In some cases, the Joint Venture performs services in advance of invoicing the customer, thereby creating a contract asset. Revenue in these arrangements is estimated and constrained until the Joint Venture determines that it is probable a significant revenue reversal will not occur, and variable consideration is allocated to the performance obligation for which the Joint Venture earns a contingent fee.

*Perpetual software licenses*—The Joint Venture’s perpetual software arrangements provide a license for a customer to use software in perpetuity. Software licenses are typically delivered to the customer with functionality from which the customer can benefit from the license on its own or together with readily available resources. Perpetual software arrangements are recognized at the time of delivery or through an input measure of progress method over the installation period if the arrangements require significant production or modification or customization of the software. Contracts accounted for through an input measure of progress method are generally measured based on the ratio of labor hours incurred to date to total estimated labor hours to be incurred. Software implementation fees are recognized as the work is performed or under the input method for perpetual software. Hardware revenues are generally recognized upon delivery. Maintenance is recognized ratably over the term of the agreement as passage of time represents a faithful depiction of the transfer of these services.

*Professional services*—The Joint Venture provides training and consulting services to its customers, and the services may be fixed fee or time and materials based. Consulting services that fall outside of the standard implementation services vary depending on the scope and complexity of the service requested by the customer. Consulting services are deemed to be capable of being distinct from other products and services, and the services are satisfied either at a point of time or over time based on delivery. Training services are usually provided as an optional service to enhance the customer’s experience with a software product or provides additional education surrounding the general topic of the solution. Training services are capable of being distinct from other products and services. The Joint Venture treats training services as a distinct performance obligation, and they are satisfied at a point of time.

*Transaction processing services*—The Joint Venture provides transaction processing (such as claims processing) services to hospitals, pharmacies and health systems via a cloud-based (SaaS) platform. The promised service is to stand ready to process transactions for our customers over the contractual period on an as needed basis. The revenue related to these services is recognized over time as the transactions are processed, and the revenue is recognized over the individual days in which the services are performed. Any fixed annual fees and implementation fees are recognized ratably over the contract period.

*Hosted solutions and software as a service (“SaaS”)*—The Joint Venture enters into arrangements whereby the Joint Venture provides the customer access to a Joint Venture-owned software solution, which are generally marketed under annual and multi-year arrangements. The customer is only provided “access” (not a license) to the software application. In these arrangements, the customer does not purchase equipment nor does the customer take physical possession of the software. The related revenue is recognized ratably over the contracted term. For fixed fee arrangements, revenue recognition begins after set-up and implementation are complete. For per-transaction fee arrangements, revenue is recognized as transactions are processed beginning on the service start date.

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***Contract Balances***

The Joint Venture's payment terms vary by customer and product type. For certain products or services, the Joint Venture requires upfront payments before control of the product or service has transferred to the customer. For other products and services, the Joint Venture invoices the customer in arrears after providing the products or services. In addition, for certain contingent fee services, customers are billed in arrears, typically based upon a percentage of collections the Joint Venture makes on the customer's behalf.

Under the new revenue standard, the Joint Venture generally recognizes a contract asset when revenue is recognized in advance of invoicing on a customer contract, unless the right to payment for that revenue is unconditional (i.e. requiring no further performance and only the passage of time). If a right to payment is determined to meet the criteria to be considered 'unconditional', then the Joint Venture will recognize a receivable.

There were no impairment losses recognized on accounts receivable or contract assets during the three and six months ended September 30, 2019.

The Joint Venture records deferred revenues when billings or payments are received from customers in advance of its performance. Deferred revenue is generally recognized when transfer of control to customers occurs. The deferred revenue balance is driven by multiple factors, including the frequency of renewals, invoice timing, and invoice duration. As of September 30, 2019, the Joint Venture expects 94% of the deferred revenue balance to be recognized in one year or less, and approximately \$328,000 of the beginning period balance was recognized during the first six months of fiscal 2020.

***Costs to Obtain or Fulfill a Contract***

Sales commissions and certain other incentive payments (e.g., bonuses that are contingent solely on obtaining a contract or a pool of contracts) earned by the Joint Venture's sales organization are capitalized as incremental costs to obtain a contract. The Joint Venture typically does not offer commissions on contract renewals. Decremental commissions upon renewal (i.e., non-commensurate with initial commissions) are offered to the Joint Venture's sales associates for certain customers and are not material. Under ASC 606, all commissions and other qualifying incentive payments capitalized are amortized over an expected period of benefit defined as the initial contract term plus anticipated renewals. In contrast, under ASC 605 these capitalized costs were amortized over the specific revenue contract terms, which are typically 12 to 60 months. In making the significant judgment in determining the appropriate period of benefit, the Joint Venture evaluated both qualitative and quantitative factors such as the expected customer relationship period and technology obsolescence. In addition, prior to solution go-live, the Joint Venture incurs certain contract fulfillment costs primarily related to SaaS setup for our clients. These costs are capitalized to the extent they are directly related to a contract, are recoverable, and create a resource used to deliver the Joint Venture's SaaS services. Capitalized costs to fulfill a contract are amortized over the expected period of benefit.

At September 30, 2019, the Joint Venture had capitalized costs to obtain a contract of \$12,407 in prepaid and other current assets and \$67,426 in other noncurrent assets. During the three and six months ended September 30, 2019, the Joint Venture recognized \$5,098 and \$9,207 of amortization expense related to such capitalized costs, respectively, which is included in the total operating expenses. At September 30, 2019, the Joint Venture had capitalized costs to fulfill a contract of \$1,383 in prepaid and other current assets and \$8,571 in other noncurrent assets. During the three and six months ended September 30, 2019, the Joint Venture recognized \$313 and \$609 of amortization expense, respectively, related to such capitalized costs, which is included in cost of operations.

***Postage Revenues***

Postage revenues are the result of providing delivery services to customers in the Joint Venture's payment and communication solutions. Postage revenues are generally billed as a pass-through cost to the Joint Venture's customers. The service is part of a combined performance obligation with the printing and handling services provided to the customer because the postage services are not distinct within the context of the contract. The Joint Venture presents Postage Revenue separately from Solutions Revenue on the consolidated statements of operation as it makes the financial statements more informative for the users. The revenue related to the combined performance obligation of the postage, printing, and handling service is recognized as the transactions are processed, and the revenue is recognized over the individual days in which the services are performed.

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### ***Arrangements with Multiple Performance Obligations***

The Joint Venture engages in customer arrangements which may include multiple performance obligations, such as any combination of software, hardware, implementation, SaaS-based offerings, consulting services, or maintenance services. For such arrangements, the Joint Venture allocates revenues to each performance obligation on a relative standalone selling price basis. A performance obligation's standalone selling price is determined based on the directly observable prices charged to customers, when available or estimated using other methods such as the adjusted market assessment approach, the expected cost plus a margin approach, or other approaches in cases where distinct performance obligations are not sold separately but instead sold at a bundled price. For performance obligations with historical pricing that is highly variable, the residual approach is used. Such instances primarily relate to the Joint Venture's perpetual software arrangements in which the Joint Venture sells the same products to different customers for a broad range of amounts.

### ***Remaining Performance Obligations***

The aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) for executed contracts includes deferred revenue and other revenue yet to be recognized from non-cancellable contracts. As of September 30, 2019, the Joint Venture's total remaining performance obligations approximated \$1,347,000, of which approximately 52% is expected to be recognized over the next twelve months, and the remaining 48% thereafter.

In this balance, the Joint Venture does not include the value of unsatisfied performance obligations related to those contracts for which it recognizes revenue at the amount for which it has the right to invoice for services performed. Additionally, this balance does not include revenue related to performance obligations that are part of a contract with an original expected duration of one year or less. Lastly, this balance does not include variable consideration allocated to the individual goods or services in a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Examples includes variable fees associated with transaction processing and contingent fee services.

### ***Disaggregated Revenue***

The Joint Venture disaggregates the revenue from contracts with customers by operating segment as it believes doing so best depicts how the nature, amount, timing and uncertainty of the Joint Venture's revenue are affected by economic factors. See Note 9, *Segment Reporting* for the total revenue disaggregated by operating segment for the three and six months ended September 30, 2019 and 2018.

The Joint Venture's total revenue by disaggregated revenue source was generally consistent for each reportable segment for the three and six months ended September 30, 2019 and 2018.

### ***Customer Incentives***

Certain customers, which include the Joint Venture's channel partners, may receive cash-based incentives or rebates based on actual sales and achievement of a cumulative level of sales, which are accounted for as variable consideration. The Joint Venture considers these amounts to be consideration payable to the customer, and therefore, the Joint Venture estimates these amounts based on the expected amount to be provided to customers and reduces the transaction price accordingly.

### ***Practical Expedients and Exemptions***

The Joint Venture has elected to utilize either the right to invoice practical expedient or the series-based variable consideration allocation framework for most transaction processing services not subject to contingencies. The Joint Venture also has elected to exclude sales taxes and other similar taxes from the measurement of the transaction price in contracts with customers. Therefore, revenue is recognized net of such taxes.

In certain customer arrangements with customers, the Joint Venture determined there are certain promised goods or services which are immaterial in the context of the contract from both a quantitative and qualitative perspective, and therefore, the goods and services are disregarded when assessing the performance obligations in the customer arrangement.

The Joint Venture has elected to apply the significant financing practical expedient, and as a result, the Joint Venture will not adjust the promised amount of consideration in a customer contract for the effects of a significant financing component when the period of time between when the Joint Venture transfers a promised good or service to a customer and when the customer pays for the good or service will be one year or less.

#### 4. Interest Rate Cap Agreements

##### *Risk Management Objective of Using Derivatives*

The Joint Venture is exposed to certain risks arising from both its business operations and economic conditions. The Joint Venture principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Joint Venture 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 Joint Venture enters into derivative financial instruments to manage differences in the amount, timing and duration of the Joint Venture's known or expected cash receipts and its known or expected cash payments principally related to the Joint Venture's borrowings.

##### *Cash Flow Hedges of Interest Rate Risk*

The Joint Venture'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 these objectives, the Joint Venture primarily uses interest rate cap agreements as part of its interest rate risk management strategy.

In March 2016 and 2017, Legacy CHC and the Joint Venture, respectively, executed annuitized interest rate cap agreements with a combined notional amount of \$650,000 and \$750,000, respectively, to limit the exposure of the variable component of interest rates under the then existing term loan facility or future variable rate indebtedness, each beginning in March 2017 and expiring in March 2020.

In August 2018, the Joint Venture executed additional annuitized interest rate cap agreements with notional amounts of \$500,000 and \$1,500,000, respectively, to limit the exposure of the variable component of interest rates under the term loan facility or future variable rate indebtedness to a maximum of 1.0%. The \$500,000 interest rate cap agreement began effective August 31, 2018 and expires March 31, 2020. The \$1,500,000 interest rate cap agreement begins effective March 31, 2020 and expires December 31, 2021.

As of September 30, 2019, each of the Joint Venture's outstanding interest rate cap agreements was designated as a cash flow hedge of interest rate risk and was determined to be highly effective.

Following the adoption of ASU 2017-12, all changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Joint Venture's variable-rate debt. During the twelve months subsequent to September 30, 2019, the Joint Venture estimates that \$16,009 will be reclassified as an increase to interest expense.

The following table summarizes the fair value of the Joint Venture's derivative instruments at September 30, 2019 and March 31, 2019:

Derivative financial instruments designated as hedging instruments:	Fair Values of Derivative Financial Instruments		
	Asset (Liability)	September 30, 2019	March 31, 2019
	Balance Sheet Location		
Interest rate cap agreements	Prepaid and other current assets	\$ 731	\$ 8,766
Interest rate cap agreements	Accrued expenses	(11,629)	(2,160)
Interest rate cap agreements	Other long-term liabilities	(23,066)	(16,846)
		<u>\$ (33,964)</u>	<u>\$ (10,240)</u>

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

The effect of the derivative instruments on the accompanying condensed consolidated statements of operations for the three and six months ended September 30, 2019 and 2018 is summarized in the following table:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
<b>Derivative financial instruments in cash flow hedging relationships:</b>				
Gain/ (loss) related to effective portion of derivative financial instruments recognized in other comprehensive income (loss)	\$ (3,635)	\$ 6,218	\$ (20,686)	\$ 11,868
Gain/ (loss) related to portion of derivative financial instruments reclassified from accumulated other comprehensive income (loss) to interest expense	\$ 479	\$ 1,293	\$ (568)	\$ 2,705

### Credit Risk-related Contingent Features

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

As of September 30, 2019, the termination value of derivative financial instruments in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, was \$35,207. If the Joint Venture had breached any of these provisions at September 30, 2019, the Joint Venture could have been required to settle its obligations under the agreements at this termination value. The Joint Venture does not offset any derivative financial instruments, and the derivative financial instruments are not subject to collateral posting requirements.

## 5. Fair Value Measurements

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Joint Venture's assets and liabilities that are measured at fair value on a recurring basis consist of the Joint Venture's derivative financial instruments and contingent consideration obligations. The tables below summarize these items as of September 30, 2019 and March 31, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall.

Description	Balance at September 30, 2019	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate cap agreements	\$ (33,964)	\$ —	\$ (33,964)	\$ —
Contingent consideration obligations	(4,000)	—	—	(4,000)
Total	\$ (37,964)	\$ —	\$ (33,964)	\$ (4,000)

Description	Balance at March 31, 2019	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate cap agreements	\$ (10,240)	\$ —	\$ (10,240)	\$ —
Contingent consideration obligations	(3,091)	—	—	(3,091)
Total	\$ (13,331)	\$ —	\$ (10,240)	\$ (3,091)

The valuation of the Joint Venture'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 cap agreements is 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) using the overnight index swap rate as the discount rate.

The Joint Venture 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 Joint Venture 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 Joint Venture has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs to evaluate the likelihood of default by itself and by its counterparties. As of September 30, 2019, the Joint Venture determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Joint Venture determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The valuation of the Joint Venture's contingent consideration obligations was determined using a discounted cash flow method as applied to cash flows determined through a Monte Carlo Simulation. This analysis reflects the contractual terms of the purchase agreements (e.g., minimum and maximum payments, length of earn-out periods, manner of calculating any amounts due, etc.) 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 revenue and probabilities of achieving such future revenue would have resulted in a higher fair value measurement while an increase in the discount rate would have resulted in a lower fair value measurement.

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Balance at beginning of period	\$ (2,300)	\$ (4,172)	\$ (3,091)	\$ (4,000)
Adjustment of provisional amounts	—	—	—	100
Gain/ (loss) included in contingent consideration	(1,700)	72	(909)	(200)
Balance at end of period	<u>\$ (4,000)</u>	<u>\$ (4,100)</u>	<u>\$ (4,000)</u>	<u>\$ (4,100)</u>

#### *Assets and Liabilities Measured at Fair Value upon Initial Recognition*

The carrying amount and the estimated fair value of financial instruments held by the Joint Venture at September 30, 2019 and March 31, 2019 were:

	September 30, 2019		March 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 72,992	\$ 72,992	\$ 47,718	\$ 47,718
Accounts receivable	\$ 675,306	\$ 675,306	\$ 759,502	\$ 759,502
Senior Credit Facilities (Level 2)	\$3,925,509	\$3,973,284	\$4,804,905	\$4,834,800
Senior Notes (Level 2)	\$ 981,335	\$1,015,000	\$ 979,905	\$ 990,000
Debt component of tangible equity units (Level 2)	\$ 42,069	\$ 43,896	\$ —	\$ —

The carrying amounts of cash equivalents and accounts receivable approximate fair value because of their short-term maturities. The fair value of the Senior Credit Facilities and Senior Notes is based upon market quotes and trades by investors in partial interests of these instruments. The fair value of the debt component of tangible equity units is based on a discounted cash flow analysis.



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### ***Investments in Businesses***

In December 2018, the Joint Venture purchased \$15,000 of preferred shares of a health care company and \$500 shares in a related company holding certain intellectual property, each of which is classified within Other noncurrent assets, net on the accompanying condensed consolidated balance sheets. Because this investment has no readily determinable fair value, the Joint Venture measures this investment at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Joint Venture recognized no changes in the value of this investment during the three and six months ended September 30, 2019.

## **6. Legal Proceedings**

The Joint Venture is subject to various claims with customers and vendors, pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of its business.

### ***Government Subpoenas and Investigations***

From time to time, the Joint Venture receives subpoenas or requests for information from various government agencies. The Joint Venture generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require time and effort and can result in considerable costs being incurred by the Joint Venture. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Joint Venture and other members of the health care industry, as well as to settlements.

### ***Other Matters***

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

## **7. Income Taxes**

The Joint Venture is treated as a partnership for income tax purposes and is therefore not subject to U.S. federal income taxes and not subject to most state and local income taxes. Legacy CHC and Change Healthcare Practice Management Solutions, Inc., both wholly owned subsidiaries of the Joint Venture, are subject to U.S. federal, state and local, and non-U.S. corporate income taxes.

The income tax expense for the three months ended September 30, 2019 and income tax benefit for the three months ended September 30, 2018 was \$998 and \$2,119, respectively, which represents an effective tax rate of 115.0% and (1.9%), respectively. The income tax expense for the six months ended September 30, 2019 and income tax benefit for the six months ended September 30, 2018 was \$2,563 and \$2,228, respectively, which represents an effective tax rate of 3.4% and (1.8%), respectively.

Fluctuations in the Joint Venture's reported income tax rates are primarily due to the earnings from partnerships that are passed through to the Members for which the Joint Venture is not subject to tax and benefits recognized as a result of certain incentive tax credits resulting from research and experimental expenditures in both the US and Canada.

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

Upon the consummation of the Transactions, the Joint Venture assumed obligations related to certain tax receivable agreements (collectively, the "Tax Receivable Agreements") with its current and former owners. Because the assets and obligations of the predecessor businesses were contributed to the Joint Venture at their historical carrying values, these Tax Receivable Agreements are subject to differing accounting models as explained below.

## 2009—2011 Tax Receivable Agreements

Under the 2009—2011 Tax Receivable Agreements assumed by the Joint Venture in connection with the Transactions, the Joint Venture is obligated to make payments to certain of the former Legacy CHC stockholders, equal to 85% of the applicable cash savings that the Joint Venture expects to realize as a result of tax attributes arising from certain previous transactions. As a result of the covered change of control with respect to the Tax Receivable Agreements that occurred in connection with the Transactions, payments the Joint Venture makes under the 2009—2011 Tax Receivable Agreements are required to be calculated using certain valuation assumptions, including that the Joint Venture will have sufficient taxable income to use the applicable tax attributes and that certain of such tax attributes will be used by the Joint Venture on a pro rata basis from the date of the Transactions (or in certain cases from the date of certain previous transactions) through the expiration of the applicable tax attribute. Because the 2009—2011 Tax Receivable Agreements were previously subject to fair value measurement in connection with a prior business combination transaction, it is recognized at its initial fair value plus recognized accretion to date.

## 2017 Tax Receivable Agreement

The 2017 Tax Receivable Agreement generally provides for the payment by Change Healthcare Performance, Inc. (a wholly owned subsidiary of the Joint Venture) to affiliates of Blackstone, Hellman & Friedman of 85% of the net cash tax savings realized (or, in certain circumstances, deemed to be realized) in periods ending on or after the Transactions as a result of certain net operating losses and certain other tax attributes of Change Healthcare Performance, Inc. as of the date of the Transactions. The 2017 Tax Receivable Agreement is considered a loss contingency under FASB ASC Topic 450 and is reflected on the accompanying condensed consolidated balance sheet at the amount that is both probable and reasonably estimable with future changes in this value being reflected within pretax income or loss.

## McKesson Tax Receivable Agreement

The McKesson Tax Receivable Agreement generally requires payment to affiliates of McKesson (the “McKesson TRA Parties”) of 85% of certain cash tax savings realized (or, in certain circumstances, deemed to be realized) by Change Healthcare Performance, Inc. in periods ending on or after the date on which McKesson ceases to own at least 20% of the Joint Venture as a result of (i) certain amortizable tax basis in assets transferred to Joint Venture at the closing of the Transactions and (ii) imputed interest deductions and certain other tax attributes arising from payments under the McKesson Tax Receivable Agreement. Because payments under the McKesson Tax Receivable Agreement are contingent upon McKesson’s ceasing to own at least 20% of the Joint Venture and such an event was not probable at inception of the McKesson Tax Receivable Agreement or as of September 30, 2019, no related obligation has been reflected on the accompanying condensed consolidated balance sheet.

Based on facts and circumstances at September 30, 2019, the Joint Venture estimates the aggregate payments due under these Tax Receivable Agreements to be as follows:

	2009 - 2011 Tax Receivable Agreements	2017 Tax Receivable Agreement	Total
2020 (remainder)	\$ —	\$ —	\$ —
2021	18,703	1,179	19,882
2022	19,756	1,179	20,935
2023	19,826	41,330	61,156
2024	19,096	19,650	38,746
Thereafter	119,498	52,393	171,891
Gross expected payments	196,879	115,731	312,610
Less: Amounts representing discount	(92,852)	—	(92,852)
Total tax receivable agreement obligations due to related parties	104,027	115,731	219,758
Less: Current portion due (included in due to related parties, net)	(18,703)	(1,179)	(19,882)
Tax receivable agreement long-term obligations due to related parties	<u>\$ 85,324</u>	<u>\$ 114,552</u>	<u>\$ 199,876</u>

The timing and/or amount of aggregate payments due may vary based on a number of factors, including the amount of net operating losses and income tax rates.

## **9. Segment Reporting**

Management views the Joint Venture's operating results based on three reportable segments: (a) Software and Analytics, (b) Network Solutions and (c) Technology-enabled Services. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 2 to the Joint Venture's audited consolidated financial statements for the year ended March 31, 2019.

In April 2019, the Joint Venture made certain changes in the way that it manages its business and allocates costs. Specifically, the Joint Venture made the following changes during the period:

- Moved its consumer payments solution from the Network Solutions reportable segment to the Technology-enabled Services reportable segment.
- Moved its consumer engagement solutions from the Software and Analytics reportable segment to the Network Solutions reportable segment.
- Made certain changes in the way that costs are assigned to the reportable segments.

The presentation in the tables that follow has been retrospectively adjusted to reflect the above described changes. The retrospective reclassifications resulted in an impact to revenue and Adjusted EBITDA of less than 2% for each reportable segment.

### ***Software and Analytics***

The Software and Analytics segment provides solutions for revenue cycle management, provider network management, payment accuracy, value-based payments, clinical decision support, consumer engagement, risk adjustment and quality performance, and imaging and clinical workflow.

### ***Network Solutions***

The Network Solutions segment provides solutions for financial, administrative and clinical transactions, electronic payments and aggregation and analytics of clinical and financial data.

### ***Technology-enabled Services***

The Technology-enabled Services segment provides solutions for revenue cycle and practice management, value-based care enablement, communications and payments, pharmacy benefits administration and consulting.

### ***Corporate and Eliminations***

Inter-segment revenue and expenses primarily represent claims management and payment and communication solutions provided between segments.

Corporate and eliminations includes pass-through postage costs, management, administrative and certain other shared corporate services costs that are not allocated to the respective reportable segments, as well as eliminations to remove inter-segment revenue and expenses and consolidating adjustments to classify certain rebates paid to channel partners as a reduction of revenue. These administrative costs are excluded from the adjusted EBITDA measure for each respective reportable segment.

Listed below are the revenue and adjusted EBITDA for each of the reportable segments for the three and six months ended September 30, 2019 and 2018. This information is reflected in the manner utilized by management to make operating decisions, assess performance and allocate resources. Such amounts include allocations of corporate shared services functions that are essential to the core operations of the reportable segments such as information technology, operations and product development functions. Segment assets and related depreciation expenses are not presented to management for purposes of operational decision making, and therefore are not included in the accompanying tables.

**Three Months Ended September 30, 2019**

	<b>Software and Analytics</b>	<b>Network Solutions</b>	<b>Technology- enabled Services</b>	<b>Corporate and Eliminations</b>	<b>Consolidated</b>
Revenue from external customers:					
Solutions revenue	\$ 375,789	\$ 124,368	\$ 243,685	\$ (5,141)	\$ 738,701
Postage revenue	—	—	—	57,110	57,110
Inter-segment revenue	339	19,908	439	(20,686)	—
Net revenue	<u>\$ 376,128</u>	<u>\$ 144,276</u>	<u>\$ 244,124</u>	<u>\$ 31,283</u>	<u>\$ 795,811</u>
Adjusted EBITDA	<u>\$ 140,078</u>	<u>\$ 86,500</u>	<u>\$ 44,841</u>	<u>\$ (53,726)</u>	<u>\$ 217,693</u>
Equity compensation					9,345
Acquisition accounting adjustments					553
Acquisition and divestiture-related costs					414
Integration and related costs					19,781
Management fees and related costs					2,413
Strategic initiatives, duplicative and transition costs					6,120
Severance costs					2,929
Accretion and changes in estimate with related parties, net					3,214
Impairment of long-lived assets and other exit related costs					—
Contingent consideration					1,700
Loss on Extinguishment of Debt					16,900
Other non-routine, net					2,858
EBITDA Adjustments					66,227
EBITDA					151,466
Interest expense					69,901
Depreciation and amortization					77,448
Amortization of capitalized software developed for sale					3,249
Income (loss) before income tax provision (benefit)					<u>\$ 868</u>

	Six Months Ended September 30, 2019				
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	Consolidated
Revenue from external customers:					
Solutions revenue	\$ 812,904	\$ 246,121	\$ 487,293	\$ (10,545)	\$ 1,535,773
Postage revenue	—	—	—	115,594	115,594
Inter-segment revenue	568	39,767	821	(41,156)	—
Net revenue	<u>\$ 813,472</u>	<u>\$ 285,888</u>	<u>\$ 488,114</u>	<u>\$ 63,893</u>	<u>\$ 1,651,367</u>
Adjusted EBITDA	<u>\$ 342,393</u>	<u>\$ 171,472</u>	<u>\$ 89,992</u>	<u>\$ (105,108)</u>	<u>\$ 498,749</u>
Equity compensation					15,207
Acquisition accounting adjustments					927
Acquisition and divestiture-related costs					1,073
Integration and related costs					45,507
Management fees and related costs					5,060
Strategic initiatives, duplicative and transition costs					9,688
Severance costs					10,099
Accretion and changes in estimate with related parties, net					7,094
Impairment of long-lived assets and other exit related costs					(840)
Contingent consideration					909
Loss on Extinguishment of Debt					16,900
Other non-routine, net					4,008
EBITDA Adjustments					115,632
EBITDA					383,117
Interest expense					153,307
Depreciation and amortization					148,764
Amortization of capitalized software developed for sale					6,698
Income (loss) before income tax provision (benefit)					<u>\$ 74,348</u>

	Three Months Ended September 30, 2018				
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	Consolidated
Revenue from external customers:					
Solutions revenue	\$ 379,998	\$ 121,302	\$ 242,408	\$ (5,922)	\$ 737,786
Postage revenue	—	—	—	62,404	62,404
Inter-segment revenue	3,512	15,020	935	(19,467)	—
Net revenue	<u>\$ 383,510</u>	<u>\$ 136,322</u>	<u>\$ 243,343</u>	<u>\$ 37,015</u>	<u>\$ 800,190</u>
Adjusted EBITDA	<u>\$ 139,419</u>	<u>\$ 83,612</u>	<u>\$ 39,181</u>	<u>\$ (46,261)</u>	<u>\$ 215,951</u>
Equity compensation					2,959
Acquisition accounting adjustments					555
Acquisition and divestiture-related costs					3,319
Integration and related costs					26,291
Strategic initiatives, duplicative and transition costs					8,348
Severance costs					2,339
Costs related to recently issued accounting standards					1,772
Accretion and changes in estimate with related parties, net					5,932
Management fees and related costs					2,607
Impairment of long-lived assets and other exit related costs					2,343
Gain on Sale of extended care business					(111,392)
Contingent consideration					—
Other non-routine, net					6,004
EBITDA Adjustments					(48,923)
EBITDA					264,874
Interest expense					80,677
Depreciation and amortization					69,258
Amortization of capitalized software developed for sale					3,618
Income (loss) before income tax provision (benefit)					<u>\$ 111,321</u>

	Six Months Ended September 30, 2018				
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	Consolidated
Revenue from external customers:					
Solutions revenue	\$ 772,826	\$ 241,892	\$ 491,436	\$ (10,663)	\$ 1,495,491
Postage revenue	—	—	—	127,962	127,962
Inter-segment revenue	7,086	31,033	1,902	(40,021)	—
Net revenue	<u>\$ 779,912</u>	<u>\$ 272,925</u>	<u>\$ 493,338</u>	<u>\$ 77,278</u>	<u>\$ 1,623,453</u>
Adjusted EBITDA	<u>\$ 282,056</u>	<u>\$ 165,849</u>	<u>\$ 89,154</u>	<u>\$ (93,318)</u>	<u>\$ 443,741</u>
Equity compensation					8,259
Acquisition accounting adjustments					2,540
Acquisition and divestiture-related costs					7,507
Integration and related costs					47,242
Strategic initiatives, duplicative and transition costs					19,122
Severance costs					10,015
Costs related to recently issued accounting standards					5,513
Accretion and changes in estimate with related parties, net					9,756
Management fees and related costs					5,284
Impairment of long-lived assets and other exit related costs					3,360
Gain on Sale of extended care business					(111,392)
Contingent consideration					272
Other non-routine, net					8,156
EBITDA Adjustments					15,634
EBITDA					428,107
Interest expense					159,226
Depreciation and amortization					137,785
Amortization of capitalized software developed for sale					7,378
Income (loss) before income tax provision (benefit)					<u>\$ 123,718</u>

# 10. Accumulated Other Comprehensive Income (Loss)

The following is a summary of the accumulated other comprehensive income (loss) balances, net of taxes, and related changes for each of the quarterly periods in the three and six months ended September 30, 2019 and 2018.

	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
<b>Balance at March 31, 2018</b>	\$ (14,823)	\$ 6,218	\$ (8,605)
Cumulative effect of accounting change	—	1,633	1,633
Change associated with foreign currency translation	(8,638)	—	(8,638)
Change associated with current period hedging	—	4,016	4,016
Reclassification into earnings	—	(1,412)	(1,412)
<b>Balance at June 30, 2018</b>	\$ (23,461)	\$ 10,455	\$ (13,006)
Cumulative effect of accounting change	—	—	—
Change associated with foreign currency translation	1,886	—	1,886
Change associated with current period hedging	—	6,218	6,218
Reclassification into earnings	—	(1,293)	(1,293)
<b>Balance at September 30, 2018</b>	\$ (21,575)	\$ 15,380	\$ (6,195)
<b>Balance at March 31, 2019</b>	\$ (24,263)	\$ (10,769)	\$ (35,032)
Reclassification of stranded tax effects as a result of the Tax Legislation	—	(1,406)	(1,406)
Change associated with foreign currency translation	756	—	756
Change associated with current period hedging	—	(17,051)	(17,051)
Reclassification into earnings	—	(1,047)	(1,047)
<b>Balance at June 30, 2019</b>	\$ (23,507)	\$ (30,273)	\$ (53,780)
Change associated with foreign currency translation	3,812	—	3,812
Change associated with current period hedging	—	(3,635)	(3,635)
Reclassification into earnings	—	479	479
<b>Balance at September 30, 2019</b>	\$ (19,695)	\$ (33,429)	\$ (53,124)



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## 11. Equity Based Compensation

Following Change Healthcare Inc.'s initial public offering, Change Healthcare Inc. adopted the Change Healthcare Inc. 2019 Omnibus Incentive Plan (the "Omnibus Incentive Plan") pursuant to which 25.0 million shares of the Change Healthcare Inc.'s stock have been reserved for issuance to employees, directors and consultants of Change Healthcare Inc., the Joint Venture and its affiliates.

In connection with the Omnibus Incentive Plan, Change Healthcare Inc., during the three months ended September 30, 2019, granted to the Joint Venture's employees and directors one or a combination of time-vesting restricted stock units (RSUs), time-vesting deferred stock units, performance stock units, and cash settled restricted stock units under vesting terms that generally vary from one to four years from the date of grant. Each of these instruments are described below.

*Restricted Stock Units ("RSUs")*—Change Healthcare Inc. granted 4,436,758 RSUs during the three months ended September 30, 2019. The RSUs are subject to either a graded vesting schedule over four years or a one or four year cliff vesting schedule, depending on the terms of the specific award. Upon vesting, the RSUs are exchanged for shares of the Change Healthcare Inc.'s common stock.

*Performance Stock Units ("PSUs")*—Change Healthcare Inc. granted 1,079,621 PSUs during the three months ended September 30, 2019. The PSUs consist of two tranches, one for which the quantity of awards expected to vest varies based on the Joint Venture's compound annual Revenue growth rate over a three year period in comparison to a target percentage and one for which the quantity of awards expected to vest varies based on the Joint Venture's compound annual Adjusted EBITDA growth rate over a three year period in comparison to a target percentage. The awards earned upon satisfaction of the performance conditions become vested on the fourth anniversary of the vesting commencement date of the award (i.e. continued service is required beyond the satisfaction of the performance condition prior to vesting). The Joint Venture recognizes compensation expense for the PSUs based on the number of awards that are considered probable to vest. Recognition of expense is based on the probability of achievement of performance targets and is periodically reevaluated.

*Cash Settled Restricted Stock Units ("CSRSUs")*—Change Healthcare Inc. granted 597,006 CSRSUs during the three months ended September 30, 2019. The CSRSUs are expected to vest ratably over three years. Upon vesting, however, Change Healthcare Inc. is required to pay cash in settlement of such CSRSUs based on their fair value at the date such CSRSUs vest.

*Deferred Stock Units ("DSUs")*—Change Healthcare Inc. granted 45,704 DSUs during the three months ended September 30, 2019. The DSUs vest 100% upon the one-year anniversary of the date of grant. Unlike the RSUs, however, the DSUs are exchanged for shares of the Change Healthcare Inc.'s common stock only following the participant's separation from service.

During the three and six months ended September 30, the Joint Venture recognized compensation expense of \$6,096 related to awards granted under the 2019 Plan. At September 30, 2019, aggregate unrecognized compensation expense of the Joint Venture related to awards granted under the 2019 Plan was \$87,211.

## 12. Tangible Equity Units

In July 2019, Change Healthcare Inc. completed its offering of 5,750,000 TEUs. Each TEU, which had a stated amount of \$50, was comprised of a prepaid stock purchase contract and a senior amortizing note due June 30, 2022. Change Healthcare Inc. allocated the proceeds from the issuance of the TEUs to equity and debt based on the relative fair values of the respective components of each TEU. Change Healthcare Inc. invested the net proceeds of each in a unit purchase contract and a debt instrument of the Joint Venture on terms that substantially mirror the economics of the TEUs, resulting in net proceeds to the Joint Venture of \$276,633 after consideration of underwriting discounts and third party costs that were allocated between the unit purchase contract and debt instrument consistent with the allocation utilized by Change Healthcare Inc. Under these mirrored arrangements, the Joint Venture is required to make cash payments or to transfer LLC Units to Change Healthcare Inc. concurrent with any cash payments or issuance of shares by Change Healthcare Inc. pursuant to the terms of its TEUs.

With respect to the mirrored debt arrangement, the Joint Venture agreed to pay Change Healthcare Inc. an aggregate principal amount of \$47,367 in quarterly installments of principal and interest (5.5% per year) on March 30, June 30, September 30, and December 30 of each year through June 30, 2022. Such amounts have been classified with debt on the accompanying consolidated balance sheets.

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With respect to the mirrored unit purchase contract, the Joint Venture agreed to issue LLC Units to Change Healthcare Inc. in an amount equal to the number of shares of common stock issued by Change Healthcare Inc. to holders of its purchase contract and at the time of delivery of such common stock to such holders. Such amounts have been classified within Member's deficit on the accompanying consolidated balance sheets.

Because the economics of the unit purchase contract are intended to mirror the purchase contracts issued by Change Healthcare Inc., the Joint Venture expects to deliver between 18,429,325 LLC Units and 22,115,075 LLC Units, subject to adjustment, based on the Applicable Market Value (as defined below) of Change Healthcare Inc.'s common stock as described below:

- If the Applicable Market Value of Change Healthcare Inc.'s common stock is greater than \$15.60 per share, holders will receive 3.2051 shares of common stock per purchase contract and the Joint Venture will issue an identical number of LLC units to Change Healthcare Inc.
- If the Applicable Market Value is less than or equal to \$15.60 per share but greater than or equal to \$13.00 per share, the holder will receive a number of shares of the Company's common stock per purchase contract equal to \$50, divided by the Applicable Market Value and the Joint Venture will issue an identical number of LLC units to Change Healthcare Inc.; and
- If the Applicable Market Value is less than \$13.00 per share, the holder will receive 3.8461 shares of common stock per purchase contract and the Joint Venture will issue an identical number of LLC units to Change Healthcare Inc.

The Applicable Market Value is defined as the arithmetic average of the volume weighted average price per share of the Company's common stock over the twenty consecutive trading day period immediately preceding the balance sheet date, or June 30, 2022, for settlement of the stock purchase contracts.

The unit purchase contract has a dilutive effect on the Change Healthcare Inc.'s net income (loss) per unit. The 18,429,325 minimum LLC Units to be issued are included in the calculation of basic net income (loss) per unit. The difference between the minimum LLC Units and the maximum LLC Units are potentially dilutive securities, and accordingly, will be included in the Joint Venture's diluted net income (loss) per unit on a pro rata basis to the extent the Applicable Market Value is higher than \$13.00 but is less than \$15.60 at period end.

### 13. Net Income (Loss) per Common Unit

The following table sets forth the computation of basic and diluted net income (loss) per common unit:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Basic net income per common unit:				
Numerator:				
Net income (loss)	\$ (130)	\$ 113,440	\$ 71,785	\$ 125,946
Denominator:				
Weighted average common units outstanding	299,789,703	251,501,744	275,892,383	251,550,892
Minimum units issuable under purchase contracts	18,429,325	—	9,214,663	—
	<u>318,219,028</u>	<u>251,501,744</u>	<u>285,107,046</u>	<u>251,550,892</u>
Basic net income (loss) per common unit	<u>\$ —</u>	<u>\$ 0.45</u>	<u>\$ 0.25</u>	<u>\$ 0.50</u>
Diluted net income per common unit:				
Numerator:				
Net income (loss)	\$ (130)	\$ 113,440	\$ 71,785	\$ 125,946
Denominator:				
Number of shares used in basic computation	318,219,028	251,501,744	285,107,046	251,550,892
Weighted average effect of dilutive securities				
Add:				
Dilutive units issuable under unit purchase contracts	3,685,750	—	1,842,875	—
Reimbursement units issuable to Change Healthcare Inc.	2,065,255	1,832,196	1,859,929	1,839,878
	<u>323,970,033</u>	<u>253,333,940</u>	<u>288,809,850</u>	<u>253,390,770</u>
Diluted net income (loss) per common unit	<u>\$ —</u>	<u>\$ 0.45</u>	<u>\$ 0.25</u>	<u>\$ 0.50</u>

### 14. Asset Held for Sale

During the three months ended September 30, 2019, the Joint Venture committed to a plan to sell its Alpharetta, GA office property in an effort to reduce its real estate footprint. The Joint Venture expects to complete a sale of the property during its fiscal third quarter and recognize an immaterial gain on sale. As of September 30, 2019, the property had a carrying value of \$29,562. As a result of this contemplated sale transaction, the Joint Venture has classified the property as an asset held for sale on the accompanying condensed consolidated balance sheet at September 30, 2019.

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**15. Subsequent Events***Agreement to Sell Office Building*

In October 2019, the Joint Venture executed an agreement for the sale of its Alpharetta, GA office property for proceeds of approximately \$31,500. The sale is expected to be completed during the third quarter of the Joint Venture's fiscal year. The Joint Venture expects to recognize a gain of an immaterial amount as a result of this sale.

The Joint Venture has evaluated subsequent events through November 14, 2019, the date the financial statements were available to be issued.



## Officers of Change Healthcare Technology Enabled Services

Change Healthcare Officers		
Officer	Title	Address
Neil E. de Crescenzo	President and Chief Executive Officer	3055 Lebanon Pike, Suite 1000 Nashville, TN 37214
Thomas Laur	Vice President	275 Grove Street, Suite I-310 Newton, MA 02466
Dennis Robbins	Vice President, Finance	3055 Lebanon Pike, Suite 1000 Nashville, TN 37214
Derrick Kirkwood	Vice President, Tax	3055 Lebanon Pike, Suite 1000 Nashville, TN 37214
Loretta Cecil	Secretary	5995 Windward Parkway Alpharetta, GA 30005
Carrie Ratliff	Assistant Secretary	3535 Piedmont Road Building 14 Suite 600 Atlanta, GA 30305
Joe Ashkouti	Assistant Secretary	3535 Piedmont Road Building 14 Suite 600 Atlanta, GA 30305

COUNTY OF NASSAU

CONSULTANT'S, CONTRACTOR'S AND VENDOR'S DISCLOSURE FORM

1. Name of the Entity: Change Healthcare Technology Enabled Services LLC

Address: 3055 Lebanon Pike

City: Nashville State: TN Zip Code: 37214

2. Entity's Vendor Identification Number: 581953146

3. Type of Business: Ltd. Liability Co (specify) \_\_\_\_\_

4. List names and addresses of all principals; that is, all individuals serving on the Board of Directors or comparable body, all partners and limited partners, all corporate officers, all parties of Joint Ventures, and all members and officers of limited liability companies (attach additional sheets if necessary):

2 File(s) uploaded

*No principals have been attached to this form.*

5. List names and addresses of all shareholders, members, or partners of the firm. If the shareholder is not an individual, list the individual shareholders/partners/members. If a Publicly held Corporation, include a copy of the 10K in lieu of completing this section.

If none, explain.

On June 27, 2019, Change Healthcare became a public company. Information related to this request is in the process of being updated. To check information on our financials, please visit the Financials link on our website: <https://ir.changehealthcare.com/financial-information>.

*No shareholders, members, or partners have been attached to this form.*

6. List all affiliated and related companies and their relationship to the firm entered on line 1. above (if none, enter "None"). Attach a separate disclosure form for each affiliated or subsidiary company that may take part in the performance of this contract. Such disclosure shall be updated to include affiliated or subsidiary companies not previously disclosed that participate in the performance of the contract.

Change Healthcare Technology Enabled Services LLC is a subsidiary of Change Healthcare, LLC.

7. List all lobbyists whose services were utilized at any stage in this matter (i.e., pre-bid, bid, post-bid, etc.). If none, enter "None." The term "lobbyist" means any and every person or organization retained, employed or designated by any client to influence - or promote a matter before - Nassau County, its agencies, boards, commissions, department heads, legislators or committees, including but not limited to the Open Space and Parks Advisory Committee and Planning Commission. Such matters include, but are not limited to, requests for proposals, development or improvement of real property subject to County regulation, procurements. The term "lobbyist" does not include any officer, director, trustee, employee, counsel or agent of the County of Nassau, or State of New York, when discharging his or her official duties.

Are there lobbyists involved in this matter?

YES ☐ NO ☒

(a) Name, title, business address and telephone number of lobbyist(s):

(b) Describe lobbying activity of each lobbyist. See below for a complete description of lobbying activities.

(c) List whether and where the person/organization is registered as a lobbyist (e.g., Nassau County, New York State):

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8. VERIFICATION: This section must be signed by a principal of the consultant, contractor or Vendor authorized as a signatory of the firm for the purpose of executing Contracts.

The undersigned affirms and so swears that he/she has read and understood the foregoing statements and they are, to his/her knowledge, true and accurate.

Electronically signed and certified at the date and time indicated by:  
Scott Schrader [SCOTT.SCHRADER@CHANGEHEALTHCARE.COM]

Dated: 01/02/2020 01:41:07 PM

Title: Chief Commercial Officer, TES

**The term lobbying shall mean any attempt to influence:** any determination made by the Nassau County Legislature, or any member thereof, with respect to the introduction, passage, defeat, or substance of any local legislation or resolution; any determination by the County Executive to support, oppose, approve or disapprove any local legislation or resolution, whether or not such legislation has been introduced in the County Legislature; any determination by an elected County official or an officer or employee of the County with respect to the procurement of goods, services or construction, including the preparation of contract specifications, including by not limited to the preparation of requests for proposals, or solicitation, award or administration of a contract or with respect to the solicitation, award or administration of a grant, loan, or agreement involving the disbursement of public monies; any determination made by the County Executive, County Legislature, or by the County of Nassau, its agencies, boards, commissions, department heads or committees, including but not limited to the Open Space and Parks Advisory Committee, the Planning Commission, with respect to the zoning, use, development or improvement of real property subject to County regulation, or any agencies, boards, commissions, department heads or committees with respect to requests for proposals, bidding, procurement or contracting for services for the County; any determination made by an elected county official or an officer or employee of the county with respect to the terms of the acquisition or disposition by the county of any interest in real property, with respect to a license or permit for the use of real property of or by the county, or with respect to a franchise, concession or revocable consent; the proposal, adoption, amendment or rejection by an agency of any rule having the force and effect of law; the decision to hold, timing or outcome of any rate making proceeding before an agency; the agenda or any determination of a board or commission; any determination regarding the calendaring or scope of any legislature oversight hearing; the issuance, repeal, modification or substance of a County Executive Order; or any determination made by an elected county official or an officer or employee of the county to support or oppose any state or federal legislation, rule or regulation, including any determination made to support or oppose that is contingent on any amendment of such legislation, rule or regulation, whether or not such legislation has been formally introduced and whether or not such rule or regulation has been formally proposed.





## Officers of Change Healthcare Technology Enabled Services

Change Healthcare Officers	
Officer	Title
Neil E. de Crescenzo	President and Chief Executive Officer
Thomas Laur	Vice President
Dennis Robbins	Vice President, Finance
Derrick Kirkwood	Vice President, Tax
Loretta Cecil	Secretary
Carrie Ratliff	Assistant Secretary
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Joe Ashkouti	Assistant Secretary	3535 Piedmont Road Building 14 Suite 600 Atlanta, GA 30305

## CONTRACT FOR SERVICES

THIS AGREEMENT, (together with the schedules, appendices, attachments and exhibits, if any, this “Agreement”), dated as of the date (the “Effective Date”) that this Agreement is executed by Nassau County, is entered into by and between (i) Nassau County, a municipal corporation having its principal office at 1550 Franklin Avenue, Mineola, New York 11501 (the “County”), acting for and on behalf of the Nassau County Police Department, having its principal office at 1490 Franklin Avenue, Mineola, New York 11550 (the “Department”) and (ii) Change Healthcare Technology Enabled Services, LLC, having its principal office at 5995 Windward Parkway, Alpharetta, Georgia 30005 (the “Contractor”).

### W I T N E S S E T H:

WHEREAS, the County desires to hire the Contractor to perform the services described in this Agreement; and

WHEREAS, the Contractor desires to perform the services described in this Agreement; and

WHEREAS, this is a personal service contract within the intent and purview of Section 2206 of the County Charter;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained in this Agreement, the parties agree as follows:

<sup>CR</sup>/<sub>MAC</sub> 1. Term. This Agreement shall commence on March 30, 2020, or the date the Agreement is executed by the County, whichever is later, and terminate five (5) years thereafter, unless sooner terminated in accordance with the provisions of this Agreement.

2. Services. Generally. The services to be provided by the Contractor under this Agreement shall consist of the recording and transmission of pre-hospital care reports (“PCR”), and billing and fee collection services for the Department’s ambulance bureau (“Services”). Such Services, set forth below, are further described in the Contractor’s Proposal incorporated herein by reference and attached hereto as Exhibit A. It is expressly understood that due to the experience, knowledge and capability of the current Senior Operations Manager and Supervisor PDCN Ambulance Account (Morris Maybruch and Ashley Peters), they shall be responsible during the Term of this Agreement for directing all activities of Contractor and devoting sufficient time to personally supervise the Services hereunder. For purposes of this Agreement, the foregoing may not be replaced nor may their responsibilities be substantially reduced by Contractor without the express written approval (which may be provided through email) of the Department, which will not be unreasonably withheld or delayed.

(a) Recording and Transmission of Pre-Hospital Care Reports/Computer Hardware and Software Requirements

Electronic Pre-hospital Care Reports (EPCRs) will be entered electronically and managed by the Contractor in a database or similar system allowing the sorting, filtering, and reporting of data. Each EPCR will constitute one patient record and will contain the information required to file the insurance claim. The Contractor agrees to comply with all Federal and New York State HIPAA regulations (Health Insurance Portability and Protection Act 1981) to protect

patient confidentiality.

Data fields may include but not be limited to the following information:

- Patient name, social security number, date of birth, and age
- Dates of ambulance response
- NCPD Communications Bureau computer aided dispatch (CAD) number
- Ambulance call type, treatment and requirements
- Origin and destination of transport
- Patient address and address verification
- Other applicable patient location information
- Patient/ payee payment or collection status
- Timing and amount of payment(s)
- Insurance information
- ICD-10-CM diagnostic code
- CPT code
- Medical Coding

The Contractor shall provide the Department with the technological capabilities for Automated PCR Field Data Entry, which will provide the Department with the ability to collect patient information at the scene of an incident, en route to the hospital and /or while at the hospital. In support thereof the Contractor shall supply approved mobile electronic devices of the Department's choosing for collection of EPCR data. It shall be the responsibility of the Contractor to replace any mobile electronic device that is determined to be irreparable by the Department. This shall be done within 30 days of such request.

Additional items, as outlined below, are either currently in use and supplied by the Contractor, or reflect minimum requirements. All elements are necessary for operational efficiency.

- i. The Contractor shall provide a means to link the EPCR software, the Medical Control radio consoles and the cardiac monitors that are in use by the County. This shall include any hardware and/or software that the County chooses.
- ii. The Contractor shall provide computer software, hardware, peripherals and accessories as needed by the Department, in conformity with such items and materials currently utilized by the Department. The Contractor will be responsible for the cost to integrate the EPCR software with the Department's existing Computer Aided Dispatch ("CAD") system, provided however, that the maximum cost for such integration shall not exceed Twenty-five Thousand Dollars (\$25,000.00). Upgrades and/or expansion of equipment, software, hardware, peripherals and accessory needs as required by the Department will also be responsibility of vendor.
- iii. The Contractor will supply the County with a means to securely destroy any HIPPA related paperwork that in no longer needed to be kept on file. This will include an industrial grade shredder, which the contractor shall supply and maintain, and provision of a quarterly on-site commercial shredding service.
- iv. The Contractor will provide paid subscriptions to all necessary data storage programs to Emergidata, MedMedia's "Webcur", and any other software program in use by the

Department.

- v. The Contractor will provide paid subscriptions to all necessary anti-virus programs, necessary spyware programs, etc. as determined by the Department.
- vi. The Contractor will supply paid subscription and necessary support/hardware and supplies for Lightpath internet for Emergency Ambulance Bureau's (the "Bureau") Billing Office. The Contractor will supply three (3) laptop computers, of the Bureau's specifications, with aircards and associated software/subscriptions for use by EAB Billing Tech Support Team. The Contractor will provide up to 2 additional laptop computers, as needed, in the event of expansion of the Bureau's Tech Support Team. The Contractor will provide for replacement of same, at the Bureau's discretion, after two (2) years.
- vii. The Contractor will supply and support three (3) desktop computers and associated software and hardware of EAB's specifications for administrative use by EAB Billing Office. Associated hardware will include, but not be limited to, two (2) high speed scanners and two (2) high speed printers. Specifications will be determined by the Bureau. The Contractor will provide for replacement of same, at the Bureau's discretion, after two (2) years.
- viii. The Contractor will provide for in-house supply of parts and sundry items for repair and maintenance of mobile electronic devices.
- ix. The Contractor will provide an open credit card account, In the name of the Emergency Ambulance Bureau Commanding Officer, with a pre-set monthly dollar amount, for purchase of said parts and supplies.
- x. The Contractor will maintain an open warranty and repair/replacement contract with computer manufacturer(s) for necessary repairs and/or replacement of computers that cannot be performed in-house.
- xi. To meet performance standards and to be compatible with existing County networks and standards, hardware, software, peripherals and associated service should, meet or exceed the standards. The Contractor must have the ability to meet County network upgrades as necessary.
- xii. Equipment and Software must be maintained and updated with sufficient frequency, subject to a bi-annual review, to remain consistent with industry standards to maximize overall program effectiveness.
- xiii. The Contractor will be required to coordinate with the Information Technology Units of County and the Department to ensure compatibility with existing information technology systems as required.

(b) Medical Coding

The Contractor shall perform medical diagnostic coding using sources recognized as industry standards (e.g., current edition of ICD-10-CM Volume I – Tabular List of Diseases and Injuries, ICD-10-CM Volume 2 – Alphabetical Index of Diseases and Injuries, and the Diagnostic Coding guidelines for Ambulance Services as contained in the Coding Clinic ICD-10-CM Diagnostic and Reporting guidelines for outpatient Services, latest edition, or the new Medical diagnostic codes). Codes will be entered electronically in a manner/format developed by the

Contactor and reasonably approved by the Department. The Contractor will then integrate this information into the patient record database.

All medical coding shall be supervised by a certified coder. The Contractor must have the ability to enter a PCR into the database in the event an EPCR is unable to be uploaded electronically.

(c) Billing Services

Upon receipt of the patient information, the Contractor will use industry best practices to determine the authenticity of the patient's name and address. The release of medical and insurance information required for billing may, but not always be obtained when the EPCR is generated. Therefore, the Contractor will contact the patient to secure all necessary information in order to file a claim with their insurance carrier. The Contractor will also seek to make arrangements with local area hospitals to obtain the patient address and insurance information. The Contractor will determine patient eligibility for Medicare, Medicaid, primary and secondary insurance, if the claim is to be directly paid by the patient, or if the claim is ineligible for billing.

The Contractor will generate all appropriate insurance claims for payment.

All written communications between the contractor and "customers" including patients, other "billed" recipients, and representatives of insurance companies will be subject to the review and approval of the Department. The Contractor shall adhere to the following billing procedure:

- i. Initial statement: Contractor will issue an initial statement for payment to the patient, or if applicable, to the insurance carrier within seven (7) days after receipt of the EPCR. The statement will include but not be limited to the following information: account number; name and address of the patient; date of the statement; date of service; description of the service rendered; name of the hospital receiving the patient, fees for service provided; payment due date; basic information regarding third party reimbursement procedures; telephone number and hours for customer service assistance.
  - a. The statement will include either a separate or perforated return voucher that will include but not be limited to: account number; date of the statement; date of the transport; patient information; return address information (to a County-designated lockbox); payment due date; amount of the bill; statement date; terms of release of medical records. The reverse side of the statement will include an area to allow patients to provide address correction information, insurance information. The Contractor will also be expected to include a return envelope pre-printed with the return address information.
- ii. Second statement: Contractor will issue a statement thirty (30) days after the initial statement if payment, or insurance information is not received by the bank lockbox by the printed due date. This statement will be similar to the original statement and will also indicate that it is a "second statement and may be disregarded" if payment was already remitted.
- iii. Third statement: Contractor will issue a statement sixty (60) days after the initial statement if payment or insurance information is not received by the bank lockbox, but should be "by" the second statement due date. This statement will be similar to prior

statements, and will note, "If payment has been made, disregard the statement".

- iv. Collection letter: Contractor will issue a "notice to collections" letter, ninety (90) days after the initial statement. This statement will constitute a warning notice to the patient stating that if the patient fails to pay the amount due, or provide insurance information the account will be forwarded for collection activity.
- v. Telephone calls: Contractor will place telephone calls to patients and insurance providers regarding account status if necessary, after the initial statement and subsequent statements are sent.
- vi. Third Party Reimbursements: Contractor will use industry best practices to maximize receipt of legitimate third party reimbursements for Department services, and to assist patients in obtaining such reimbursements with the minimum inconvenience.
- vii. Medicare Claims: Contractor will process all Medicare claims as required by Medicare Law, using current Common Procedural Terminology (CPT) codes for ambulance service, and accepted International Common Diagnostic (ICD-10) codes for emergency ambulance service, for all Medicare claims. Billing of the co-payment and deductible fee to the patient after receipt of payment from Medicare, and secondary insurance if applicable.
- viii. Medicaid Claims: Contractor will process all Medicaid claims as required by New York State law, using current Common Procedural Terminology (CPT) codes for ambulance service, and accepted International Common Diagnostic (ICD-10) codes for emergency ambulance service, for all Medicaid claims.
- ix. Insurance Claims: Contractor will process all insurance claims using Common Procedural Terminology (CPT) codes for emergency ambulance service, and accepted International Common Diagnostic (ICD-10) codes for emergency ambulance service, upon receipt of notice of the appropriate primary insurance (insurance carriers may include Medicare HMO's or Medicaid HMO's); use of either paper format or electronic format, as required, for claims; provision of information as required by the insurance company with all applicable supporting documentation; determination of a secondary carrier to be billed for any remaining balances after payment is received from the primary insurance carrier, and if so, generating an insurance claim to the second carrier including all standard company claims information and acceptable proof of payment from the primary carrier; billing of the patient for co-payments or deductibles.
- x. Refunds: Contractor will document overpayments or incorrect payments. Copies of this information will be forwarded monthly within Contractor's invoice, for the processing of refunds through proper County procedures.
- xi. Returned checks: Contractor will follow up and collect payment for returned checks.
- xii. Claims of Financial Hardship: Contractor will cooperate with the Nassau County Attorney's Office and the Bureau in the administration of its Financial Assistance Program, as may be amended from time to time. Contractor will be responsible for distributing Financial Assistance applications to patients claiming financial hardship and following up with patients to obtain required documents showing proof of identification, residence, and income. Final determinations of bill reduction and/or settlement shall be

subject to the approval of the Nassau County Attorney's Office.

- xiii. Billing complaints: Contractor to develop and implement standards and procedures to address all billing complaints subject to the approval of County. The Bureau will oversee vendor handling of billing complaints and take appropriate action on an as needed basis.
- xiv. Credit cards: Contractor will accept credit cards as a form of payment for ambulance services using a credit card company approved by the County. The Contractor will be responsible for any processing and/or merchant fees associated with accepting credit cards.
- xv. Collection Accounts: Each month, accounts which are deemed uncollectible will be reported to the County for approval for transfer to a Nassau County collection vendor. Accounts will be "marked" uncollectible if there has been no "activity" for one hundred and twenty (120) days after assignment, when the patient or responsible party cannot be located, or where the Contractor, in the reasonable exercise of his/her judgment deems the account uncollectible.
- xvi. Ethical Standards: The Contractor will use maximum, diligent, and timely billing efforts. All the Contractor's operations must be performed in accordance with the highest standard of legal ethics. The Contractor will comply strictly with any legal requirements or codes of conduct with respect to the collection of debts, communication with debtors made or issued by any governmental agency in any jurisdiction or location in which any attempt to collect the debts described herein is made. Such requirements will include but will not be limited to the following:
  - Fair Debt Collection Practices Act, 15 U.S.C. § 1692
  - New York State Judiciary Law Article 15, § 489
  - New York State General Business Law § 600 and 601
  - New York Executive Law § 63, subchapter 12.
- xvii. Customer Service Via Telephone and Web Site: The Contractor will establish a multi-line telephone inquiry service upon project initiation to handle patient inquiries. The telephone number will be toll-free in New York State. At a minimum, it is expected that the service will be provided between the hours of 8:00 AM to 6:00 PM, Monday through Friday, excluding national holidays, Eastern Standard time, and the Contractor is encouraged to provide additional days and times of service. Answering machines and telephone message services will not be used during the service window period.

The Contractor will use the telephone service for the following functions:

- Process insurance information for patients
- Elicit additional information from patients in order to re-submit claims, which resulted in eligibility denials.
- Voice activated telephone\*messaging\*will not be permitted
- Respond to correspondence from patients and payers
- Receive and follow up on denials/requests for medical record documentation where appropriate and authorized
- Respond to and resolve all ambulance users' inquiries and complaints regarding the billing and collection of ambulance fees in a prompt and



satisfactory manner

The Contractor will answer calls to the service and will attempt to resolve any billing problems or questions. Employees answering calls must be proficient in English, be skilled at navigating Contractor's database to access patient billing information and be capable of resolving billing payment issues.

The Contractor will establish a database to document all calls to the inquiry line, and will track all problems, inquiries, and resolutions. Reports describing this database will be provided to the Department monthly. An interactive call processor or similar system will be used to handle concurrent requests to the system. For ninety percent (90%) or more of all calls, the average delay period from the time the call is received by the system to the time the call is answered by a Contractor representative will not exceed one minute. The call processor will provide periodic prompts and messages during the waiting period, will provide alternative options for each caller and will estimate the wait until the caller is connected with a customer service representative.

- The Contractor will include the establishment of a secure website exclusively for Department billing inquiries and service information.
- The contractor will provide the ability to contact the Contractor using electronic mail.
- The Contractor will coordinate with designated County personnel to establish links to the websites of the County and the Department.

xviii. Contractor Database:

a. The Contractor's information systems will include the following features:

- "Real time," interactive information on all transactions, i.e., data will be posted immediately rather in batches
- Ability to process partial payments
- Ability to process payment adjustments such as returned checks and refunds

b. Access to County data: Access to the County's data stored in the Contractor's database, for any purpose, shall be secured through a password-protected log-on procedure. Each user of the database must have a unique user identification (ID) and password. Only those employees of the Contractor specifically assigned to perform billing and debt collections services for County may be allowed access to the database of the Department's records. Employees of the Department, authorized in writing by the Department shall also be given IDs and passwords that allow authorized inquiry access to Contractors database of patient accounts. The ability to edit database information will also be restricted to individuals designated by the Contractor and the County. Contractor shall notify the County immediately upon discovering any unauthorized access to either the County's data stored in Contractors database and shall provide to the County all relevant available information regarding the unauthorized access; Data may be purged from the live information system and stored on CD-ROM based on age as determined by the Department.

c. Maintenance of Equipment: The Contractor shall maintain and repair all

equipment provided under this Agreement. This equipment including all hardware, software, peripherals and associated service shall, meet or exceed industry standards. Equipment must be maintained and updated with sufficient frequency, subject to annual review, to remain consistent with industry standards and to maximize overall program effectiveness. Equipment shall remain the property of the Contractor. Contractor will be required to coordinate with the data processing units of the County and the Department to ensure appropriate levels of security with existing information technology systems as required. Nothing in this agreement shall prevent the County and the Department from installing additional software onto the computers provided by the Contractor.

(d) General Reporting Requirements

i. Reporting. Contractor shall prepare reports addressing performance under this Agreement in a standard format provided to Contractor by the County. Contractor shall, as requested by the County, aid in the development of these reports. As required by the County, certain reports shall be available in real time via electronics access to Contractor's information systems. Contractor shall prepare other reports in written format on a routine monthly basis; Contractor shall send a dvd-r copy of any report documentation, forms, payments and zero EOB's at the request of the Department.

ii. Monitoring. A Department representative will arrange for monitoring of the Services. The monitor will oversee ongoing quality to ensure that the Contractor is meeting the following levels of performance.

1. all billing information is accurate, complete and reflects the appropriate source of information
2. all required documentation is completed and submitted properly and in a timely manner
3. Medicare, Medicaid, private insurance, worker's compensation insurances, no-fault insurance and patient payments are properly recorded
4. secondary and follow up invoices and correspondence are issued
5. additional carriers are located and billed with proof of primary payment

iii. Auditing. The County, or its designee, and upon reasonable advance written notice, shall conduct a review and audit of the billing process, collection procedures and practices of the Contractor on an annual basis. The audits shall be conducted to verify that submissions for reimbursement comply with all applicable federal health care program statutes, regulations, program and carrier directives relating to medical necessity determinations and medical diagnostic coding and to identify any and all instances where claims fail to meet these standards. The audits are intended to ensure that the programs are billed appropriately for services rendered. To the extent that irregularities are uncovered in the course of the review, the nature and cost of the irregularity will be detailed with recommendations for corrective action. County agrees that an audit conducted under this section will be conducted at such times and in a manner that avoids undue disruption of Contractor's operations. County will hold all information disclosed by Contractor and the results of any examination or audit in strict confidence and will not disclose such information to a third party unless required by law.

iv. Third-Party Audit by County. County may engage, at its own expense, independent, external, third-party auditors ("Third-Party Auditors") to perform the review and audit as described in (iii) above. Contractor will provide the information that the Third-Party Auditors determine to be reasonably necessary to perform and complete all audit procedures. The Third-

Party Auditors shall execute Contractor's "Confidentiality Agreement", substantially in the form attached hereto as Exhibit B, prior to the start of the audit. County agrees that an audit conducted under this section will be conducted at such times and in a manner that avoids undue disruption of Contractor's operations. County will hold all information disclosed by Contractor and the results of any examination or audit in strict confidence and will not disclose such information to a third party unless required by law.

iv. Site inspection. At its sole discretion, the Department reserves the right, on reasonable advance notice, to conduct an inspection of the Contractor's work site and its facilities located in New York State directly involved in the provision of the Services to the Department under this Agreement solely for the purposes of determining compliance with this Agreement and applicable law.

(e) Contractor Compliance and Quality Control

i. The Contractor and its employees shall abide by and conduct themselves in a manner consistent with the Federal, state and local laws. The Contractor shall establish a comprehensive quality control program, including but not limited to the following:

1. An inspection system covering all services furnished by the Contractor;
2. A checklist for use in reviewing and inspecting performance during regularly scheduled or unscheduled inspections. The checklist will include every area of the Contractor's operation including but not limited to the development and maintenance of the database, backup capability, employee background review, training services, billing services, collection services, reporting services, customer services, and the performance of individuals responsible for conducting such review and inspection; and
3. A system for identifying and correcting deficiencies in the quality of services.

(f) Confidentiality

i. The Contractor shall maintain in strict confidence all records, information or data that it prepares, receives, possesses or delivers pursuant to this Agreement ("Confidential Information"). All data (including, without limitation, all content in any media or format entered into, stored in, and/or susceptible to retrieval from the County's computer systems) or other materials furnished by the County for use by Contractor under the Agreement (such as records or information) shall remain the sole property of the County, will be deemed Confidential Information and will be held in confidence in accordance with the Agreement. All Confidential Information shall not be published, circulated, shared with third parties, or used in any manner by Contractor or its officers, employees, agents or approved subcontractors except as needed to perform Contractor's obligations under this Agreement or to the extent required by law. Confidential Information does not include (a) information lawfully obtained or created by the receiving party independently from the disclosing party's Confidential Information without breach of any obligation of confidence, (b) information that enters the public domain without breach of any obligation of confidence, or (c) Protected Health Information as defined by the Health Insurance Portability and Accountability Act. A breach of this section shall be deemed a material breach of this Agreement for which County shall terminate this Agreement and exercise any and all remedies available at law and in equity.

ii. The Contractor is fully familiar with the PCR's insofar as they contain Protected Health Information protected by HIPAA and other Federal, state and /or local laws and

regulations. Use and disclosure of Protected Health Information in connection with this Agreement will be governed by the Business Associate Agreement attached as Exhibit C. Medical records and health data, including but not limited to PCR's, medical necessity determinations, and coded forms, shall be transmitted to and from the Contractor in a secure electronic format.

iii. The County reserves any and all other rights and remedies under this Agreement in the event of unauthorized disclosure.

3. Payment. (a) Amount of Consideration. The Contractor shall be compensated upon a percentage of net revenues. Net revenues are defined as the total sum of all monies collected by the Contractor less amounts refunded or credited to a patient or a third-party payor as a result of overpayments, Medicaid payments, erroneous payments or returned checks. The Contractor shall be paid 5.50% of net revenues for the duration of this Agreement. Pursuant to New York State Law, Contractor shall be paid a flat fee of Six Dollars (\$6.00) per Medicaid claim.

(b) Vouchers; Voucher Review, Approval and Audit. Payments shall be made to the Contractor in arrears and shall be contingent upon (i) the Contractor submitting a claim voucher (the "Voucher") in a form satisfactory to the County, that (a) states with reasonable specificity the services provided and the payment requested as consideration for such services, (b) certifies that the services rendered and the payment requested are in accordance with this Agreement, and (c) is accompanied by documentation satisfactory to the County supporting the amount claimed, and (ii) review, approval and audit of the Voucher by the Department and/or the County Comptroller or his or her duly designated representative (the "Comptroller").

(c) Timing of Payment Claims. The Contractor shall submit claims no later than three (3) months following the County's receipt of the services that are the subject of the claim and no more frequently than once a month.

(d) No Duplication of Payments. Payments under this Agreement shall not duplicate payments for any work performed or to be performed under other agreements between the Contractor and any funding source including the County.

(e) Payments in Connection with Termination or Notice of Termination. Unless a provision of this Agreement expressly states otherwise, payments to the Contractor following the termination of this Agreement shall not exceed payments made as consideration for services that were (i) performed prior to termination, (ii) authorized by this Agreement to be performed, and (iii) not performed after the Contractor received notice that the County did not desire to receive such services.

4. Independent Contractor. The Contractor is an independent contractor of the County. The Contractor shall not, nor shall any officer, director, employee, servant, agent or independent contractor of the Contractor (a "Contractor Agent"), be (i) deemed a County employee, (ii) commit the County to any obligation, or (iii) hold itself, himself, or herself out as a County employee or Person with the authority to commit the County to any obligation. As used in this Agreement the word "Person" means any individual person, entity (including partnerships, corporations and limited liability companies), and government or political subdivision thereof (including agencies, bureaus, offices and departments thereof).

5. Right to Works and Ownership of Data. (a) Upon execution of this Agreement, any tangible reports, documents, data, designs, drawings photographs and/or any other material provided to County pursuant to the Agreement, and any and all drafts and/or preliminary materials, in any format, to such items, shall become the exclusive property of the County.

Notwithstanding the foregoing, (i) Contractor retains all rights in its intellectual property and trade secrets contained in the materials, and no ownership rights are transferred to County hereunder, and (ii) the parties agree all rights related to de-identification and aggregation of data shall be governed by the BAA.

(b) All original records, accounts receivable data and documentation pertaining to said data is, and shall, remain, the property of the County, and shall be delivered or returned to the County in such media form as existing on the County system, together with a hard copy, and any other documents necessary to utilize the tape, disk, or media in which the data may be stored. Such material shall be delivered within thirty (30) days of the expiration or termination (for any reason) of the Agreement.

6. No Arrears or Default. The Contractor is not in arrears to the County upon any debt or contract and it is not in default as surety, contractor, or otherwise upon any obligation to the County, including any obligation to pay taxes to, or perform services for or on behalf of, the County.

7. Compliance with Law. (a) Generally. The Contractor shall comply in all material respects with any and all applicable Federal, State and local Laws, including, but not limited to those relating to HIPAA as set forth in Exhibit C (Business Associate Addendum), conflicts of interest, human rights, a living wage, disclosure of information and vendor registration in connection with its performance under this Agreement. In furtherance of the foregoing, the Contractor is bound by and shall comply with the terms of Appendix EE attached hereto and with the County's registration protocol. As used in this Agreement the word "Law" includes any and all federal and state statutes, local laws, ordinances, rules, regulations, applicable orders, and/or decrees, as the same may be amended from time to time, enacted, or adopted, applicable to the Services provided by Contractor hereunder.

(b) Nassau County Living Wage Law. Pursuant to LL 1-2006, as amended, and to the extent that a waiver has not been obtained in accordance with such law or any rules of the County Executive, the Contractor agrees as follows:

- (i) Contractor shall comply with the applicable requirements of the Living Wage Law, as amended;
- (ii) Failure to comply with the Living Wage Law, as amended, may constitute a material breach of this Agreement, the occurrence of which shall be determined solely by the County. Contractor has the right to cure such breach within thirty days of receipt of notice of breach from the County. In the event that such breach is not timely cured, the County may terminate this Agreement as well as exercise any other rights available to the County under applicable law.
- (iii) It shall be a continuing obligation of the Contractor to inform the County of any material changes in the content of its certification of compliance, attached to this Agreement as Appendix L, and shall provide to the County any information necessary to maintain the certification's accuracy.

(c) Records Access. The parties acknowledge and agree that all records, information, and data provided by Contractor pursuant to its obligations under this Agreement ("Information") remains the sole property of the County and shall be used and disclosed solely for

the purpose of performance and administration of the Agreement or as required by law. Data that is de-identified in accordance with HIPAA obligations will not be considered County data. The Contractor acknowledges that Contractor Information in the County's possession may be subject to disclosure under Article 6 of the New York State Public Officer's Law ("Freedom of Information Law" or "FOIL"). In the event that such a request for disclosure is made, the County shall make reasonable efforts to notify the Contractor of such request prior to disclosure of the Information so that the Contractor may take such action as it deems appropriate.

(d) Prohibition of Gifts. In accordance with County Executive Order 2-2018, the Contractor shall not offer, give, or agree to give anything of value to any County employee, agent, consultant, construction manager, or other person or firm representing the County (a "County Representative"), including members of a County Representative's immediate family, in connection with the performance by such County Representative of duties involving transactions with the Contractor on behalf of the County, whether such duties are related to this Agreement or any other County contract or matter. As used herein, "anything of value" shall include, but not be limited to, meals, holiday gifts, holiday baskets, gift cards, tickets to golf outings, tickets to sporting events, currency of any kind, or any other gifts, gratuities, favorable opportunities or preferences. For purposes of this subsection, an immediate family member shall include a spouse, child, parent, or sibling. The Contractor shall include the provisions of this subsection in each subcontract entered into under this Agreement.

(e) Disclosure of Conflicts of Interest. In accordance with County Executive Order 2-2018, the Contractor has disclosed as part of its response to the County's Business History Form, or other disclosure form(s), any and all instances where the Contractor employs any spouse, child, or parent of a County employee of the agency or department that contracted or procured the goods and/or services described under this Agreement. The Contractor shall have a continuing obligation to (i) require its employees to disclose such information as circumstances arise; and (ii) to update this disclosure throughout the term of this Agreement as it becomes aware of such conflicts.

(f) Vendor Code of Ethics. By executing this Agreement, the Contractor hereby certifies and covenants that:

- (i) The Contractor has been provided a copy of the Nassau County Vendor Code of Ethics issued on June 5, 2019, as may be amended from time to time (the "Vendor Code of Ethics"), and will comply with all of its provisions;
- (ii) All of the Contractor's Participating Employees, as such term is defined in the Vendor Code of Ethics (the "Participating Employees"), have been provided a copy of the Vendor Code of Ethics prior to their participation in the underlying procurement;
- (iii) All Participating Employees have completed the acknowledgment required by the Vendor Code of Ethics;
- (iv) The Contractor will retain all of the signed Participating Employee acknowledgements for the period it is required to retain other records pertinent to performance under this Agreement;
- (v) The Contractor will continue to distribute the Vendor Code of Ethics, obtain signed Participating Employee acknowledgments as new Participating Employees are added or changed during the term of this Agreement, and retain such signed acknowledgments for the period the Contractor is required to retain other records pertinent to performance under this Agreement; and

- (vi) The Contractor has obtained the certifications required by the Vendor Code of Ethics from any subcontractors or other lower tier participants who have participated in procurements for work performed under this Agreement.

8. Minimum Service Standards. Regardless of whether required by Law: (a) The Contractor shall, and shall cause Contractor Agents to, conduct its, his or her activities in connection with this Agreement so as not to endanger or harm any Person or property.

(b) The Contractor shall deliver Services under this Agreement in a professional manner consistent with the best practices of the industry in which the Contractor operates. The Contractor shall take all actions necessary or appropriate to meet the obligation described in the immediately preceding sentence, including obtaining and maintaining, and causing all Contractor Agents to obtain and maintain, all approvals, licenses, and certifications ("Approvals") necessary or appropriate in connection with this Agreement.

9. Patent/Copyright Infringement Claims.

(a) Indemnification. Contractor shall defend at its expense, and indemnify and hold harmless County from and against any loss, cost, expense, or liability finally awarded and resulting from or arising out of a claim brought by a third party ("Third Party Claim") against County if such Third Party Claim alleges the infringement of such third party's U.S. patent or copyright by a Contractor-owned product or Service ("Infringement Claim").

(b) County Requirements. Contractor's obligations under this section are conditioned on the following:

- (i) County will notify Contractor of the Infringement Claim within ten (10) business days after County obtains knowledge of the existence or commencement of a Third Party Claim for which it is entitled to be indemnified under section 9(a) above. Any failure to give such notice will waive Contractor's obligations to the extent that Contractor is actually prejudiced due to County's delay;
- (ii) County will provide Contractor with all reasonably requested cooperation, information and assistance at Contractor's sole expense; and
- (iii) County will provide Contractor with sole authority to defend and settle the Infringement Claim; provided, however, that so long as Contractor retains sole control over the defense, settlement negotiations, and disposition of any Infringement Claim, then County may employ counsel and participate at its expense in the defense and settlement discussions of such Infringement Claim.

(c) County Consent. Contractor may not enter into any settlement of an Infringement Claim that does not include a release of all covered claims pending against the County, would create a financial obligation on County, or constitute an admission of liability by County without County's prior written consent.

(d) Exclusions. Contractor is not liable under this section if the Infringement Claim is based on:

- (i) modifications to a Contractor-owned product or Service provided to County under this Agreement ("Contractor Solution") that were not performed by Contractor;
- (ii) use of custom interfaces, file conversions, or other programming for which Contractor does not develop the specifications or instructions;

- (iii) use of a Contractor Solution in combination with products or services not provided by Contractor, if use of the Contractor Solution alone would not result in liability under this section;
- (iv) use of a Contractor Solution in a manner not authorized by this Agreement, or the Documentation;
- or
- (v) any version of a Contractor Solution that Contractor has notified County to discontinue use, if infringement would have otherwise been avoided.

(e) **Infringement Remedies.** If County makes a claim under this section, or Contractor believes an Infringement Claim is reasonably likely, then Contractor will, at its expense:

- (i) obtain for County the right to continue using the Contractor Solution; or
- (ii) replace or modify the Contractor Solution with an alternative solution of substantially equivalent functionality; or
- (iii) if neither (a) nor (b) are commercially feasible, terminate County's rights and Contractor's obligations under this Agreement related to the Contractor Solution.

(f) **Exclusive Remedy.** THIS SECTION CONTAINS CONTRACTOR'S ONLY OBLIGATIONS, AND COUNTY'S ONLY REMEDIES, WITH RESPECT TO ANY INFRINGEMENT CLAIM.

#### 10. Limitation of Liability.

(a) **Total Damages.** Subject to section 10(c) below, Contractor's total cumulative liability in connection with or related to this Agreement will be limited to the sum of fees paid by County to Contractor during the 12-month period preceding the date of the claim, as applicable, whether based on breach of contract, warranty, tort, product liability or otherwise. Contractor will have no liability for systems beyond the control of Contractor.

(b) **Exclusion of Damages.** IN NO EVENT WILL SERVICE PROVIDER BE LIABLE TO CLIENT UNDER, IN CONNECTION WITH, OR RELATED TO THIS AGREEMENT FOR ANY SPECIAL, INCIDENTAL, INDIRECT, OR CONSEQUENTIAL DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS OR LOSS OF GOODWILL, WHETHER BASED ON BREACH OF CONTRACT, WARRANTY, TORT, PRODUCT LIABILITY, OR OTHERWISE, AND WHETHER OR NOT SERVICE PROVIDER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

(c) The limitations in section 10(a) above shall not apply to: (i) damages occasioned by the breach of either party of its obligations of confidentiality under this Agreement; or (ii) Contractor's indemnification obligations pursuant to sections 9 and 11 of this Agreement.

(d) **Material Consideration.** THE PARTIES ACKNOWLEDGE THAT THE FOREGOING LIMITATIONS ARE A MATERIAL CONDITION FOR THEIR ENTRY INTO THIS AGREEMENT.

**11. Indemnification; Defense; Cooperation.** (a) The Contractor shall be solely responsible for and shall indemnify and hold harmless the County, the Department and its officers, employees, and agents (the "Indemnified Parties") from and against any and all liabilities, losses, costs, expenses (including, without limitation, attorneys' fees and disbursements) and damages ("Losses"), arising out of or in connection with any third party claim resulting from the negligence, fraud or willful misconduct of the Contractor or a Contractor Agent, including Losses in connection with any threatened investigation, litigation or other proceeding or preparing a defense to or prosecuting the same; provided, however, that the Contractor shall not be



responsible for that portion, if any, of a Loss that is caused by the negligence of the County.

(b) The Contractor shall, upon the County's demand and at the County's direction, promptly and diligently defend, at the Contractor's own risk and expense, any and all suits, actions, or proceedings which may be brought or instituted against one or more Indemnified Parties for which the Contractor is responsible under this Section, and, further to the Contractor's indemnification obligations, the Contractor shall pay and satisfy any judgment, decree, loss or settlement in connection therewith.

(c) The Contractor shall, and shall cause Contractor Agents to, cooperate with the County and the Department in connection with the investigation, defense or prosecution of any action, suit or proceeding in connection with this Agreement, including the acts or omissions of the Contractor and/or a Contractor Agent in connection with this Agreement.

(d) The provisions of this Section shall survive the termination of this Agreement.

12. Insurance. (a) Types and Amounts. The Contractor shall obtain and maintain throughout the term of this Agreement, at its own expense: (i) one or more policies for commercial general liability insurance, which policy(ies) shall name "Nassau County" as an additional insured and have a minimum single combined limit of liability of not less than One Million Dollars (\$1,000,000.00) per occurrence and Two Million Dollars (\$2,000,000.00) aggregate coverage, (ii) if contracting in whole or part to provide professional services, one or more policies for professional liability insurance, which policy(ies) shall have a minimum single limit liability of not less One Million Dollars (\$1,000,000.00) per claim (iii) compensation insurance for the benefit of the Contractor's employees ("Workers' Compensation Insurance"), which insurance is in compliance with the New York State Workers' Compensation Law, and (iv) such additional insurance as the County may from time to time specify.

(b) Acceptability; Deductibles; Subcontractors. All insurance obtained and maintained by the Contractor pursuant to this Agreement shall be (i) written by one or more commercial insurance carriers licensed to do business in New York State and acceptable to the County, and which is (ii) in form and substance acceptable to the County. The Contractor shall be solely responsible for the payment of all deductibles to which such policies are subject. The Contractor shall require any subcontractor hired in connection with this Agreement to carry insurance with the same limits and provisions required to be carried by the Contractor under this Agreement.

(c) Delivery; Coverage Change; No Inconsistent Action. Prior to the execution of this Agreement, copies of current certificates of insurance evidencing the insurance coverage required by this Agreement shall be delivered to the Department. Not less than thirty (30) days prior to the date of any expiration or renewal of, or actual, proposed or threatened reduction or cancellation of coverage under, any insurance required hereunder, the Contractor shall provide written notice to the Department of the same and deliver to the Department renewal or replacement certificates of insurance. The Contractor shall cause all insurance to remain in full force and effect throughout the term of this Agreement and shall not take or omit to take any action that would suspend or invalidate any of the required coverages. The failure of the Contractor to maintain Workers' Compensation Insurance shall render this contract void and of no effect. The failure of the Contractor to maintain the other required coverages shall be deemed a material breach of this Agreement upon which the County reserves the right to consider this Agreement terminated as of the date of such failure.

13. Assignment; Amendment; Waiver; Subcontracting. This Agreement and the rights and obligations hereunder may not be in whole or part (i) assigned, transferred or disposed of,

(ii) amended, (iii) waived, or (iv) subcontracted, without the prior written consent of the County Executive or his or her duly designated deputy (the “County Executive”), and any purported assignment, other disposal or modification without such prior written consent shall be null and void. The failure of a party to assert any of its rights under this Agreement, including the right to demand strict performance, shall not constitute a waiver of such rights.

14. Termination. (a) Generally. This Agreement may be terminated (i) for any reason by the County upon thirty (30) days’ written notice to the Contractor, (ii) for “Cause” by the either party immediately upon the receipt by the other party of written notice of termination, (iii) upon mutual written Agreement of the County and the Contractor, and (iv) in accordance with any other provisions of this Agreement expressly addressing termination.

As used in this Agreement the word “Cause” includes: (i) a breach of this Agreement; (ii) the failure to obtain and maintain in full force and effect all Approvals required for the services described in this Agreement to be legally and professionally rendered; and (iii) the termination or impending termination of federal or state funding for the services to be provided under this Agreement.

(b) By the Contractor. This Agreement may be terminated by the Contractor if performance becomes impracticable through no fault of the Contractor, where the impracticability relates to the Contractor’s ability to perform its obligations and not to a judgment as to convenience or the desirability of continued performance. Termination under this subsection shall be effected by the Contractor delivering to the commissioner or other head of the Department (the “Commissioner”), at least sixty (60) days prior to the termination date (or a shorter period if sixty days’ notice is impossible), a notice stating (i) that the Contractor is terminating this Agreement in accordance with this subsection, (ii) the date as of which this Agreement will terminate, and (iii) the facts giving rise to the Contractor’s right to terminate under this subsection. A copy of the notice given to the Commissioner shall be given to the Deputy County Executive who oversees the administration of the Department (the “Applicable DCE”) on the same day that notice is given to the Commissioner.

(c) Contractor Assistance upon Termination. In connection with the termination or impending termination of this Agreement the Contractor shall, regardless of the reason for termination, take all actions reasonably requested by the County (including those set forth in other provisions of this Agreement) to assist the County in transitioning the Contractor’s responsibilities under this Agreement. The provisions of this subsection shall survive the termination of this Agreement.

15. Accounting Procedures; Records. The Contractor shall maintain and retain, for a period of six (6) years following the later of termination of or final payment under this Agreement, complete and accurate records, documents, accounts and other evidence, whether maintained electronically or manually (“Records”), pertinent to performance under this Agreement. Records shall be maintained in accordance with Generally Accepted Accounting Principles and, if the Contractor is a non-profit entity, must comply with the accounting guidelines set forth in the applicable provisions of the Code of Federal Regulations, 2 C.F.R. Part 200, as may be amended. Such Records shall at all times be available for audit and inspection by the Comptroller, the Department, any other governmental authority with jurisdiction over the provision of services hereunder and/or the payment therefore, and any of their duly designated representatives. The provisions of this Section shall survive the termination of this Agreement.

16. Limitations on Actions and Special Proceedings against the County. No action or special proceeding shall lie or be prosecuted or maintained against the County upon any claims arising out of or in connection with this Agreement unless:

(a) Notice. At least thirty (30) days prior to seeking relief the Contractor shall have presented the demand or claim(s) upon which such action or special proceeding is based in writing to the Applicable DCE for adjustment and the County shall have neglected or refused to make an adjustment or payment on the demand or claim for thirty (30) days after presentment. The Contractor shall send or deliver copies of the documents presented to the Applicable DCE under this Section to each of (i) the Department and the (ii) the County Attorney (at the address specified above for the County) on the same day that documents are sent or delivered to the Applicable DCE. The complaint or necessary moving papers of the Contractor shall allege that the above-described actions and inactions preceded the Contractor's action or special proceeding against the County.

(b) Time Limitation. Such action or special proceeding is commenced within the earlier of (i) one (1) year of the first to occur of (A) final payment under or the termination of this Agreement, and (B) the accrual of the cause of action, and (ii) the time specified in any other provision of this Agreement.

17. Work Performance Liability. The Contractor is and shall remain primarily liable for the successful completion of all work in accordance this Agreement irrespective of whether the Contractor is using a Contractor Agent to perform some or all of the work contemplated by this Agreement, and irrespective of whether the use of such Contractor Agent has been approved by the County.

18. Consent to Jurisdiction and Venue; Governing Law. Unless otherwise specified in this Agreement or required by Law, exclusive original jurisdiction for all claims or actions with respect to this Agreement shall be in the Supreme Court in Nassau County in New York State and the parties expressly waive any objections to the same on any grounds, including venue and forum non conveniens. This Agreement is intended as a contract under, and shall be governed and construed in accordance with, the Laws of New York State, without regard to the conflict of laws provisions thereof.

19. Notices. Any notice, request, demand or other communication required to be given or made in connection with this Agreement shall be (a) in writing, (b) delivered or sent (i) by hand delivery, evidenced by a signed, dated receipt, (ii) postage prepaid via certified mail, return receipt requested, or (iii) overnight delivery via a nationally recognized courier service, (c) deemed given or made on the date the delivery receipt was signed by a County employee, three (3) business days after it is mailed or one (1) business day after it is released to a courier service, as applicable, and (d)(i) if to the Department, to the attention of the Commissioner at the address specified above for the Department, (ii) if to an Applicable DCE, to the attention of the Applicable DCE (whose name the Contractor shall obtain from the Department) at the address specified above for the County, (iii) if to the Comptroller, to the attention of the Comptroller at 240 Old Country Road, Mineola, NY 11501, and (iv) if to the Contractor, to the attention of the person who executed this Agreement on behalf of the Contractor at the address specified above for the Contractor, or in each case to such other persons or addresses as shall be designated by written notice.

20. All Legal Provisions Deemed Included; Severability; Supremacy. (a) Every provision required by Law to be inserted into or referenced by this Agreement is intended to be a part of this Agreement. If any such provision is not inserted or referenced or is not inserted or referenced in correct form then (i) such provision shall be deemed inserted into or referenced by this Agreement for purposes of interpretation and (ii) upon the application of either party this

Agreement shall be formally amended to comply strictly with the Law, without prejudice to the rights of either party.

(b) In the event that any provision of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(c) Unless the application of this subsection will cause a provision required by Law to be excluded from this Agreement, in the event of an actual conflict between the terms and conditions set forth above the signature page to this Agreement and those contained in any schedule, exhibit, appendix, or attachment to this Agreement, the terms and conditions set forth above the signature page shall control. To the extent possible, all the terms of this Agreement should be read together as not conflicting.

(d) Each party has cooperated in the negotiation and preparation of this Agreement. Therefore, in the event that construction of this Agreement occurs, it shall not be construed against either party as drafter.

21. Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

22. Administrative Service Charge. The Contractor agrees to pay the County an administrative service charge of Five Hundred Thirty-three Dollars (\$533.00) for the processing of this Agreement pursuant to Ordinance Number 74-1979, as amended by Ordinance Numbers 201-2001, 128-2006, and 153-2018. The administrative service charge shall be due and payable to the County by the Contractor upon signing this Agreement.

23. Executory Clause. Notwithstanding any other provision of this Agreement:

(a) Approval and Execution. The County shall have no liability under this Agreement (including any extension or other modification of this Agreement) to any Person unless (i) all County approvals, third party approvals and other governmental approvals have been obtained, including, if required, approval by the County Legislature, and (ii) this Agreement has been executed by the County Executive (as defined in this Agreement).

(b) Availability of Funds. The County shall have no liability under this Agreement (including any extension or other modification of this Agreement) to any Person beyond funds appropriated or otherwise lawfully available for this Agreement, and, if any portion of the funds for this Agreement are from the state and/or federal governments, then beyond funds available to the County from the state and/or federal governments.

24. Entire Agreement. This Agreement represents the full and entire understanding and agreement between the parties with regard to the subject matter hereof and supersedes all prior agreements (whether written or oral) of the parties relating to the subject matter of this Agreement.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the Contractor and the County have executed this Agreement  
as of the Effective Date.

CHANGE HEALTHCARE TECHNOLOGY ENABLED  
SERVICES, LLC

By: Christine Rice  
Name: Christine Rice  
Title: SVP CFO TES  
Date: 3/2/20

NASSAU COUNTY

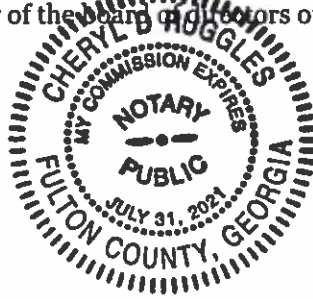
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: County Executive  
☐ Deputy County Executive  
Date: \_\_\_\_\_

PLEASE EXECUTE IN BLUE INK

Georgia  
STATE OF ~~NEW YORK~~  
)ss.:  
COUNTY OF ~~NASSAU~~  
Fulton

On the 2 day of March in the year 2020 before me personally came Christine Rice to me personally known, who, being by me duly sworn, did depose and say that he or she resides in the County of Cherokee, GA; that he or she is the SVP & CFO of Change Healthcare TES, LLC, the corporation described herein and which executed the above instrument; and that he or she signed his or her name thereto by authority of the Board of Directors of said corporation.

NOTARY PUBLIC



Cheryl D. Ruggles

STATE OF NEW YORK)  
)ss.:  
COUNTY OF NASSAU )

On the \_\_\_\_ day of \_\_\_\_\_ in the year 20\_\_ before me personally came \_\_\_\_\_ to me personally known, who, being by me duly sworn, did depose and say that he or she resides in the County of \_\_\_\_\_; that he or she is the County Executive of the County of Nassau, the municipal corporation described herein and which executed the above instrument; and that he or she signed his or her name thereto pursuant to Section 205 of the County Government Law of Nassau County.

NOTARY PUBLIC

## **Appendix EE**

### **Equal Employment Opportunities for Minorities and Women**

The provisions of this Appendix EE are hereby made a part of the document to which it is attached.

The Contractor shall comply with all federal State and local statutory and constitutional anti-discrimination provisions. In addition, Local Law No. 14-2002, entitled "Participation by Minority Group Members and Women in Nassau County Contracts," governs all County Contracts as defined herein and solicitations for bids or proposals for County Contracts. In accordance with Local Law 14-2002:

(a) The Contractor shall not discriminate against employees or applicants for employment because of race, creed, color, national origin, sex, age, disability or marital status in recruitment, employment, job assignments, promotions, upgradings, demotions, transfers, layoffs, terminations, and rates of pay or other forms of compensation. The Contractor will undertake or continue existing programs related to recruitment, employment, job assignments, promotions, upgradings, transfers, and rates of pay or other forms of compensation to ensure that minority group members and women are afforded equal employment opportunities without discrimination.

(b) At the request of the County contracting agency, the Contractor shall request each employment agency, labor union, or authorized representative of workers with which it has a collective bargaining or other agreement or understanding, to furnish a written statement that such employment agency, union, or representative will not discriminate on the basis of race, creed, color, national origin, sex, age, disability, or marital status and that such employment agency, labor union, or representative will affirmatively cooperate in the implementation of the Contractor's obligations herein.

(c) The Contractor shall state, in all solicitations or advertisements for employees, that, in the performance of the County Contract, all qualified applicants will be afforded equal employment opportunities without discrimination because of race, creed, color, national origin, sex, age, disability or marital status.

(d) The Contractor shall make best efforts to solicit active participation by certified minority or women-owned business enterprises ("Certified M/WBEs") as defined in Section 101 of Local Law No. 14-2002, for the purpose of granting of Subcontracts.

(e) The Contractor shall, in its advertisements and solicitations for Subcontractors, indicate its interest in receiving bids from Certified M/WBEs and the requirement that Subcontractors must be equal opportunity employers.

(f) Contractors must notify and receive approval from the respective Department Head prior to issuing any Subcontracts and, at the time of requesting such authorization, must submit a signed Best Efforts Checklist.

(g) Contractors for projects under the supervision of the County's Department of Public Works shall also submit a utilization plan listing all proposed Subcontractors so that, to the greatest extent feasible, all Subcontractors will be approved prior to commencement of work. Any additions or changes to the list of subcontractors under the utilization plan

shall be approved by the Commissioner of the Department of Public Works when made. A copy of the utilization plan any additions or changes thereto shall be submitted by the Contractor to the Office of Minority Affairs simultaneously with the submission to the Department of Public Works.

(h) At any time after Subcontractor approval has been requested and prior to being granted, the contracting agency may require the Contractor to submit Documentation Demonstrating Best Efforts to Obtain Certified Minority or Women-owned Business Enterprises. In addition, the contracting agency may require the Contractor to submit such documentation at any time after Subcontractor approval when the contracting agency has reasonable cause to believe that the existing Best Efforts Checklist may be inaccurate. Within ten working days (10) of any such request by the contracting agency, the Contractor must submit Documentation.

(i) In the case where a request is made by the contracting agency or a Deputy County Executive acting on behalf of the contracting agency, the Contractor must, within two (2) working days of such request, submit evidence to demonstrate that it employed Best Efforts to obtain Certified M/WBE participation through proper documentation.

(j) Award of a County Contract alone shall not be deemed or interpreted as approval of all Contractor's Subcontracts and Contractor's fulfillment of Best Efforts to obtain participation by Certified M/WBEs.

(k) A Contractor shall maintain Documentation Demonstrating Best Efforts to Obtain Certified Minority or Women-owned Business Enterprises for a period of six (6) years. Failure to maintain such records shall be deemed failure to make Best Efforts to comply with this Appendix EE, evidence of false certification as M/WBE compliant or considered breach of the County Contract.

(l) The Contractor shall be bound by the provisions of Section 109 of Local Law No. 14-2002 providing for enforcement of violations as follows:

- a. Upon receipt by the Executive Director of a complaint from a contracting agency that a County Contractor has failed to comply with the provisions of Local Law No. 14-2002, this Appendix EE or any other contractual provisions included in furtherance of Local Law No. 14-2002, the Executive Director will try to resolve the matter.
- b. If efforts to resolve such matter to the satisfaction of all parties are unsuccessful, the Executive Director shall refer the matter, within thirty days (30) of receipt of the complaint, to the American Arbitration Association for proceeding thereon.
- c. Upon conclusion of the arbitration proceedings, the arbitrator shall submit to the Executive Director his recommendations regarding the imposition of sanctions, fines or penalties. The Executive Director shall either (i) adopt the recommendation of the arbitrator (ii) determine that no sanctions, fines or penalties should be imposed or (iii) modify the recommendation of the arbitrator, provided that such modification shall not expand upon any sanction recommended or impose any new sanction, or increase the amount of any recommended fine or penalty. The Executive Director, within ten days (10) of receipt of the arbitrators award and recommendations, shall file a



determination of such matter and shall cause a copy of such determination to be served upon the respondent by personal service or by certified mail return receipt requested. The award of the arbitrator, and the fines and penalties imposed by the Executive Director, shall be final determinations and may only be vacated or modified as provided in the civil practice law and rules ("CPLR").

(m) The contractor shall provide contracting agency with information regarding all subcontracts awarded under any County Contract, including the amount of compensation paid to each Subcontractor and shall complete all forms provided by the Executive Director or the Department Head relating to subcontractor utilization and efforts to obtain M/WBE participation.

Failure to comply with provisions (a) through (m) above, as ultimately determined by the Executive Director, shall be a material breach of the contract constituting grounds for immediate termination. Once a final determination of failure to comply has been reached by the Executive Director, the determination of whether to terminate a contract shall rest with the Deputy County Executive with oversight responsibility for the contracting agency.

Provisions (a), (b) and (c) shall not be binding upon Contractors or Subcontractors in the performance of work or the provision of services or any other activity that are unrelated, separate, or distinct from the County Contract as expressed by its terms.

The requirements of the provisions (a), (b) and (c) shall not apply to any employment or application for employment outside of this County or solicitations or advertisements therefor or any existing programs of affirmative action regarding employment outside of this County and the effect of contract provisions required by these provisions (a), (b) and (c) shall be so limited.

The Contractor shall include provisions (a), (b) and (c) in every Subcontract in such a manner that these provisions shall be binding upon each Subcontractor as to work in connection with the County Contract.

As used in this Appendix EE the term "Best Efforts Checklist" shall mean a list signed by the Contractor, listing the procedures it has undertaken to procure Subcontractors in accordance with this Appendix EE.

As used in this Appendix EE the term "County Contract" shall mean (i) a written agreement or purchase order instrument, providing for a total expenditure in excess of twenty-five thousand dollars (\$25,000), whereby a County contracting agency is committed to expend or does expend funds in return for labor, services, supplies, equipment, materials or any combination of the foregoing, to be performed for, or rendered or furnished to the County; or (ii) a written agreement in excess of one hundred thousand dollars (\$100,000), whereby a County contracting agency is committed to expend or does expend funds for the acquisition, construction, demolition, replacement, major repair or renovation of real property and improvements thereon. However, the term "County Contract" does not include agreements or orders for the following services: banking services, insurance policies or contracts, or contracts with a County contracting agency for the sale of bonds, notes or other securities.

As used in this Appendix EE the term “County Contractor” means an individual, business enterprise, including sole proprietorship, partnership, corporation, not-for-profit corporation, or any other person or entity other than the County, whether a contractor, licensor, licensee or any other party, that is (i) a party to a County Contract, (ii) a bidder in connection with the award of a County Contract, or (iii) a proposed party to a County Contract, but shall not include any Subcontractor.

As used in this Appendix EE the term “County Contractor” shall mean a person or firm who will manage and be responsible for an entire contracted project.

As used in this Appendix EE “Documentation Demonstrating Best Efforts to Obtain Certified Minority or Women-owned Business Enterprises” shall include, but is not limited to the following:

- a. Proof of having advertised for bids, where appropriate, in minority publications, trade newspapers/notices and magazines, trade and union publications, and publications of general circulation in Nassau County and surrounding areas or having verbally solicited M/WBEs whom the County Contractor reasonably believed might have the qualifications to do the work. A copy of the advertisement, if used, shall be included to demonstrate that it contained language indicating that the County Contractor welcomed bids and quotes from M/WBE Subcontractors. In addition, proof of the date(s) any such advertisements appeared must be included in the Best Effort Documentation. If verbal solicitation is used, a County Contractor’s affidavit with a notary’s signature and stamp shall be required as part of the documentation.
- b. Proof of having provided reasonable time for M/WBE Subcontractors to respond to bid opportunities according to industry norms and standards. A chart outlining the schedule/time frame used to obtain bids from M/WBEs is suggested to be included with the Best Effort Documentation
- c. Proof or affidavit of follow-up of telephone calls with potential M/WBE subcontractors encouraging their participation. Telephone logs indicating such action can be included with the Best Effort Documentation
- d. Proof or affidavit that M/WBE Subcontractors were allowed to review bid specifications, blue prints and all other bid/RFP related items at no charge to the M/WBEs, other than reasonable documentation costs incurred by the County Contractor that are passed onto the M/WBE.
- e. Proof or affidavit that sufficient time prior to making award was allowed for M/WBEs to participate effectively, to the extent practicable given the timeframe of the County Contract.
- f. Proof or affidavit that negotiations were held in good faith with interested M/WBEs, and that M/WBEs were not rejected as unqualified or unacceptable without sound business reasons based on (1) a thorough investigation of M/WBE qualifications and capabilities reviewed against industry custom and standards and (2) cost of performance. The basis for rejecting any M/WBE deemed unqualified by the County Contractor shall be included in the Best Effort Documentation

- g. If an M/WBE is rejected based on cost, the County Contractor must submit a list of all sub-bidders for each item of work solicited and their bid prices for the work.
- h. The conditions of performance expected of Subcontractors by the County Contractor must also be included with the Best Effort Documentation
- i. County Contractors may include any other type of documentation they feel necessary to further demonstrate their Best Efforts regarding their bid documents.

As used in this Appendix EE the term “Executive Director” shall mean the Executive Director of the Nassau County Office of Minority Affairs; provided, however, that Executive Director shall include a designee of the Executive Director except in the case of final determinations issued pursuant to Section (a) through (l) of these rules.

As used in this Appendix EE the term “Subcontract” shall mean an agreement consisting of part or parts of the contracted work of the County Contractor.

As used in this Appendix EE, the term “Subcontractor” shall mean a person or firm who performs part or parts of the contracted work of a prime contractor providing services, including construction services, to the County pursuant to a county contract. Subcontractor shall include a person or firm that provides labor, professional or other services, materials or supplies to a prime contractor that are necessary for the prime contractor to fulfill its obligations to provide services to the County pursuant to a county contract. Subcontractor shall not include a supplier of materials to a contractor who has contracted to provide goods but no services to the County, nor a supplier of incidental materials to a contractor, such as office supplies, tools and other items of nominal cost that are utilized in the performance of a service contract.

Provisions requiring contractors to retain or submit documentation of best efforts to utilize certified subcontractors and requiring Department head approval prior to subcontracting shall not apply to inter-governmental agreements. In addition, the tracking of expenditures of County dollars by not-for-profit corporations, other municipalities, States, or the federal government is not required.

Contract Appendix L  
Certificate of Compliance

In compliance with Local Law 1-2006, as amended, the Proposer/Bidder hereby certifies the following:

1. The chief executive officer of the Proposer/Bidder is:

Neil E. de Crescenzo (Name)

3055 Lebanon Pike, Suite 1000, Nashville, Tennessee 37214 (Address)

615.932.2800 (Telephone Number)

2. The Proposer/Bidder agrees to comply with the requirements of the Nassau County Living Wage Law, and with all applicable federal, state and local laws.

3. In the past five years, Proposer/Bidder \_\_\_\_\_ has X has not been found by a court or a government agency to have violated federal, state, or local laws regulating payment of wages or benefits, labor relations, or occupational safety and health. If a violation has been assessed by the Proposer/Bidder, describe below:

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4. In the past five years, an administrative proceeding, investigation, or government body-initiated judicial action \_\_\_\_\_ has X has not been commenced against or relating to the Proposer/Bidder in connection with federal, state, or local laws regulating payment of wages or benefits, labor relations, or occupational safety and health. If such a proceeding, action, or investigation has been commenced, describe below:

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5. Proposer/Bidder agrees to permit access to work sites and relevant payroll records by authorized County representatives for the purpose of monitoring compliance with the Living Wage Law and investigating employee complaints of noncompliance.

I hereby certify that I have read the foregoing statement and, to the best of my knowledge and belief, it is true, correct and complete. Any statement or representation made herein shall be accurate and true as of the date stated below.

Neil de Crescenzo

Dated March 2, 2020

Signature of Chief Executive Officer

Neil E. de Crescenzo

Name of Chief Executive Officer

Sworn to before me this

2<sup>nd</sup> day of March, 2020

Sara M. Newman  
Notary Public



**EXHIBIT A  
PROPOSAL**

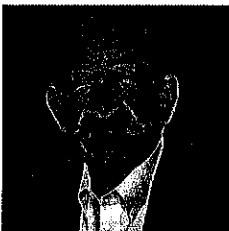
## Program Description & Staffing (RFP Appendix B)

Please provide a complete written description of the Proposal, including the following information:

**a. Staffing: Bios of firm principals as well as staff expected to be assigned to this project.**

The team members currently managing PDNC's account will continue to do so. The following are bios of Change Healthcare team members.

Our experienced team of professionals has the education and training necessary to implement and manage a successful ambulance billing program for you. In addition to these lead team members (biographies below), we will continue to assign EAB to the same team of billing specialists and resources that have served you so well over the past 17 years. We are proud of the strength of our team.



**Morris Maybruch, CPA, Senior Operations Manager**

Morris has over 30 years of experience in health care, including expertise in finance, administration, billing, and collections. Prior to joining Change Healthcare, Morris was president of Medbill.com and managing partner of Madlin, Maybruch & Weingard, a certified public accounting firm in New York. Morris managed many health care clients from 1986 through 1993 when he departed to form Shoreline Medical Billing Systems, Inc. (the predecessor firm to Medbill.com). Shoreline was one of the first companies to provide ambulance billing and collection services in New York state.

Morris earned a B.S. in Accounting and Business Administration and an M.B.A. from Long Island University. He is a member of the American and New York Institutes of Certified Public Accountants, a Certified Healthcare Consultant, and a member of the National Association of Healthcare Consultants.

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**Ashley Peters, Supervisor PDCN Ambulance Account**

Ashley has managed and supervised the PDCN team of professionals and all aspects of the billing process with an emphasis on maximizing revenue reimbursement. She also has played an important role in increasing reimbursements each year. She is instrumental in negotiating with insurance carriers to attain full reimbursement of charge rates. Ashley also ensures everyone is compliant with all applicable government rules and regulations.

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**Pat Griffin, EMS Billing Manager**

Pat has been supervising ambulance billing services since 1990. She is a Certified Professional Coder and is responsible for maintaining the coding integrity of all claims processed. She has managed multiple implementations successfully with seamless transition resulting in an ongoing revenue stream for municipalities. In addition to the overall management of the ambulance billing process, Pat is also the onsite compliance individual ensuring we strictly adhere to all federal, state, and local rules and regulations.



**Jacqueline M. Herrera, Executive Sales Director**

Jackie has over 30 years of experience in EMS management and reimbursement services. She joined our team after holding key positions in the national EMS industry, including director of marketing and business development, managing director, and division general manager with direct oversight of all financial and operational responsibilities of emergency, non-emergency, and critical care services.

Recognizing the financial impact on all EMS agencies – whether municipal, private, or volunteer EMS systems – Jackie focused her EMS expertise on reimbursement services. Previously, as senior vice president of reimbursement services for a national EMS billing firm, she was instrumental in increasing growth thanks greatly to her proven skills, professionalism, and ability to recognize the needs of individual EMS agency clients. She established effective billing policies and procedures while streamlining processes and productivity standards; this combined with her expert knowledge of regulatory requirements to ensure compliance standards has achieved optimal collections opportunities for the EMS agencies that work with her. Her expertise with client relations, working directly with EMS agencies, stands out as a proven asset that has been instrumental in meeting or exceeding budget requirements of EMS revenue.

Jackie specializes in accounts receivable analysis and management to accomplish optimal billing and collections success. Jackie, a native of South Carolina, has held EMS provider certifications as an Emergency Medical Technician in Texas, Virginia, Maryland, and the District of Columbia.





**Thomas Laur, President, Change Healthcare Technology Enabled Services**

Thomas Laur has nearly 20 years of international experience focused on innovation and accelerating growth. Thomas has a deep understanding of the healthcare software and services industry. He joined Change Healthcare from SAP, where he was president of the global healthcare business with end-to-end P&L responsibility for the division. Prior to SAP, Thomas was CEO of Sutherland Healthcare Solutions, a business process outsourcing services and analytics organization of over 5,000 employees, where he led their healthcare business. Before Sutherland, he worked at Cognizant, where he managed the global corporate strategy team and subsequently was CEO of their digital healthcare ventures. Thomas started his career at Deloitte Consulting, where he focused on strategy, transformation, and merger & acquisition programs. He received his Master in Business Management degree from the ICHEC Brussels Management School in Brussels, Belgium.



**Deborah Roberts, M. Ed., CPC – Senior Vice President, Hospital Affiliated Physicians for Emergency Medical Services and Emergency Medicine**

Deb, joining our company in 1995, oversees Florida, Michigan and Ohio emergency operations centers that process over 6 million annualized emergency department patient visits and over 1 million EMS runs. She is also actively involved with the overall implementations of all new clients. Before joining our team, Deb was a nurse and prior vice president of operations/physician recruitment in the emergency medicine staffing industry.



**Julie Tetzloff, Vice President, Operations Emergency Medical Services Billing**

Julie is responsible for operations and account management in the Emergency Medical Services billing division of Change Healthcare. She has been with the company since 1996 and has served in various roles during her tenure. She has experience with operations, account management, Six Sigma process improvement methodology, new client implementations, and acquisition integration. Julie earned her Bachelor of Arts degree from Miami University and a Master of Public Health degree from Tulane University.



**Timothy Green, CAC, CACO, CAPO, CADS – EMS Compliance Training/Compliance Instructor**

Tim is the compliance liaison for our EMS billing division and reports to Robert Bunting. He is a former EMS Director with over 30 years' experience as a firefighter/paramedic and is a graduate of the National Fire Academy (NFA) EMS Leadership, Advanced EMS Leadership and Command and Control of Fire Department Operations Courses. He has an associate degree in Fire Sciences and Emergency Medical Services from Sinclair Community College in Dayton, Ohio and has completed multiple leadership courses at the Ohio Fire Academy. Tim also completed the Ohio State University Management Series while employed with the Kettering Fire Division.

After retiring from the fire service, he was hired as the operations manager for careNOW, an innovative pathway management project owned by Premier Healthcare Services and the Greater Dayton Hospital Association in Dayton, Ohio. Tim has also worked in the EMS transport billing industry for almost 18 years, helping to build a high-performance billing company, focused on emergency transports. During that time, he was the director of client services for MBI-Solutions, fire/EMS division and later he became the director of client services, for MED3000, fire/EMS division in Ohio.

Tim is a member the International Association of Fire Chiefs (IAFC), EMS Section and the International Association of Firefighters (IAFF). He currently holds certifications as a Certified Ambulance Coder (CAC), Certified Ambulance Compliance Officer (CACO), and a Certified Ambulance Privacy Officer (CAPO). Tim's job functions focus on EMS compliance, training, and coding.

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**b. Detail prior experience in the area of compensation consulting.**

We have significant experience in assisting our clients with establishing charge rates – we will continue to provide charge rate guidance and recommend any needed changes to maximize your revenue from payers. Typically, we recommend establishing charge rates that blend the usual, reasonable, and customary charges established by Medicare for the specific geographic region with the actual cost of providing EMS response.

**c. Detail prior experience with public sector clients (similar size and scope).**

Since 2002, we have contracted with Nassau County to provide the very best in ambulance billing services. Over the years, you have realized a dramatic increase in ambulance billing revenues. Throughout this time, the average revenue per transport has continually increased to its current level of over \$500, one of the highest municipal reimbursement rates in New York.

We feel it is extremely important to note our performance. Given today's current economic landscape and especially the financial challenges facing communities, \$500 per transport in Nassau County is quite an achievement. In fact, Nassau's average reimbursement rate is higher per transport than those received by most other ambulance transport providers New York State.

- d. **Detailed cover letter on the firm's letterhead indicating EIN number and the name of the parties authorized to discuss and/or enter into negotiations with Nassau County with respect this proposal.**

We have provided a cover letter meeting these requirements at the beginning of our proposal.

## **Approach to Scope of Services**

### ***Monitoring of Industry Issues***

**The Contractor will be responsible for monitoring developments and changes in regulations and circumstances affecting ambulance billing service, including changes in rates of Medicare and Medicaid reimbursements and reporting requirements. The Contractor will communicate any such changes with the Bureau and adapt procedures as necessary to conform to regulations. The County will also look to the Contractor to periodically recommend administrative, procedural, technical, and other improvements that will reflect industry best practices and improve revenue generation, customer service, and/or other key areas of performance.**

We will continue to comply with this requirement. We use the team approach in determining the impact of changes in the healthcare industry on our clients. Our in-house legal team and our compliance team work together to determine the impact to our clients and to Change Healthcare and what changes need to be made by the operations team to comply with any new regulations. Our compliance team then relays that information to our operations teams and client managers. Your client manager will then explain any impacts to your designated staff. Every part of the process involves Change Healthcare team members who are experts at not just health care reform, but also federal Medicare rules and regulations, local Medicaid protocols, and even state and local legislation that can affect your reimbursement or required documentation. Appropriate team members attend conferences as necessary to stay abreast of the ever-changing rules in healthcare. Your client manager and operations team will keep you abreast of all changes as they occur.

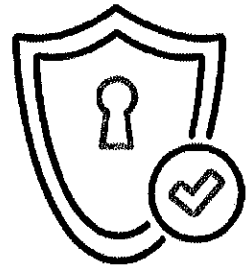
### ***Recording of Electronic Prehospital Care Reports (EPCR)***

**Electronic Prehospital Care Reports (PCRs) will be entered electronically and managed by the Contractor in a database or similar system allowing the sorting, filtering, and reporting of data. Each EPCR will constitute one patient record and will contain the information required to file the insurance claim. The Contractor agrees to comply with all Federal and New York State HIPAA regulations (Health Insurance Portability and Protection Act 1981) to protect patient confidentiality. Data fields may include but not be limited to the following information:**

- **Patient name, social security number, date of birth, and age**
- **Dates of ambulance response**
- **NCPD Communications Bureau computer aided dispatch (CAD) number**

- Ambulance call type, treatment and requirements
- Origin and destination of transport
- Patient address and address verification
- Other applicable patient location information
- Patient/ payee payment or collection status
- Timing and amount of payment(s)
- Insurance information
- ICD-10-CM diagnostic code
- CPT code
- Medical Coding

We will comply with this requirement. We currently interface with your SafetyPAD ePCR system to receive electronic run data directly into our billing system – we will continue to do so. Change Healthcare will comply with the privacy regulations pursuant to Public Law 104-191 of August 21, 1996, known as the Health Insurance Portability and Accountability Act of 1996, Subtitle F – Administrative Simplification, Sections 261, et seq., as amended ("HIPAA"), to protect the privacy of any personally identifiable protected health information ("PHI") that is collected, processed or learned through the billing services provided. We are committed to delivering services and products that enable our clients to meet the requirements of HIPAA. Our industry knowledge, leadership, and integrated internal business processes position us to help our clients address the challenges of HIPAA while meeting their long-term goals. We have been actively involved in HIPAA activities since early 2000, first with the Transactions and Code Sets requirements, then with the Privacy and Security rules. We are very proud of our HIPAA privacy policies as they reflect a lot of hard work and expertise. High quality products like our privacy policies help distinguish us from the competition.



**The Contractor will perform all medical diagnostic coding using sources recognized as industry standards (e.g., current edition of ICD-9-CM Provider and Diagnostic coding, Common Procedural Terminology coding {CPT}, as approved by the American Medical Association). PCR information will be used to assign medical diagnostic codes. Codes will be entered electronically in a manner/ format developed by the contractor, and approved by the Police Department. The Contractor will then integrate this information into the patient record database.**

We will continue to comply with this requirement following CPT and ICD-10 coding standards. The same billing team, including our certified coders, will continue to manage the County's account.

**The Contractor must have the ability to enter a PCR into the database in the event an EPCR is unable to be uploaded electronically.**

We can manually enter a PCR into our billing database if we are unable to upload an electronic PCR.

## **Ambulance Billing Services**

**Upon receipt of the patient information, the Contractor will use industry best practices to determine the authenticity of the patient's name and address.**

We will comply with this requirement. We use a variety of tools to verify both patient insurance and demographic information.

**The release of medical and insurance information required for billing may, but not always be obtained when the EPCR is generated. Therefore, the Contractor will contact the patient to secure all necessary information in order to file a claim with their insurance carrier. The Contractor will also seek to make arrangements with local area hospitals to obtain the patient address and insurance information. It is anticipated that the Contractor will determine patient eligibility for Medicare, Medicaid, primary and secondary insurance, if the claim is to be directly paid by the patient, or if the claim is ineligible for billing.**

We will continue to comply with this requirement. We have strong relationships with personnel at your transport hospitals to receive patient data. We also call patients and send statements to receive demographic information.

Our Change Healthcare clearinghouse – in addition to allowing us to submit electronic claims to government and commercial payers – includes an insurance verification tool.

**The Contractor will generate all appropriate insurance claims for payment:**

**All written communications between the contractor and "customers" including patients, other "billed" recipients, and representatives of insurance companies will be subject to the review and approval of the Department.**

We will continue to comply with this requirement.

**Initial statement: Contractor will issue an initial statement for payment to the patient, or if applicable, to the insurance carrier within seven (7) days after receipt of the EPCR. The statement will include but not be limited to the following information: account number; name and address of the patient; date of the statement; date of service; description of the service rendered; name of the hospital receiving the patient, fees for service provided; payment due date; basic information regarding third party reimbursement procedures; telephone number and hours for customer service assistance.**

We will continue to comply with this requirement.

**The statement will include either a separate or perforated return voucher that will include but not be limited to: account number; date of the statement; date of the transport; patient information; return address information (to a County-designated lockbox); payment due date; amount of the bill; statement date; terms of release of medical records. The reverse side of the statement will include an area to allow patients to provide address correction information, insurance information. The Contractor will also be expected to include a return envelope pre-printed with the return address information.**

We will continue to comply with this requirement.

**Second statement:** Contractor will issue a statement thirty (30) days after the initial statement if payment, or insurance information is not received by the bank lockbox by the printed due date. This statement will be similar to the original statement and will also indicate that it is a "second statement and may be disregarded" if payment was already remitted.

We will continue to comply with this requirement.

**Third statement:** Contractor will issue a statement sixty (60) days after the initial statement if payment or insurance information is not received by the bank lockbox, but should be "by" the second statement due date. This statement will be similar to prior statements, and will note, "If payment has been made, disregard the statement".

We will continue to comply with this requirement.

**Collection letter:** Contractor will issue a "notice to collections" letter, ninety (90) days after the initial statement. This statement will constitute a warning notice to the patient stating that if the patient fails to pay the amount due, or provide insurance information the account will be forwarded for collection activity.

We will continue to comply with this requirement.

**Telephone calls:** Contractor will place telephone calls to patients and insurance providers regarding account status if necessary, after the initial statement and subsequent statements are sent.

We will continue to comply with this requirement.

**Third Party Reimbursements.** Contractor will use industry best practices to maximize receipt of legitimate third-party reimbursements for police department services, and to assist patients in obtaining such reimbursements with the minimum inconvenience.

- **Medicare Claims:** Contractor will process all Medicare claims as required by Medicare Law, using current Common Procedural Terminology (CPT) codes for ambulance service, and accepted International Common Diagnostic (ICD-9) codes for emergency ambulance service, for all Medicare claims. Billing of the co-payment and deductible fee to the patient after receipt of payment from Medicare, and secondary insurance if applicable.

We will continue to comply with this requirement.

- **Medicaid Claims:** Contractor will process all Medicaid claims as required by New York State law, using current Common Procedural Terminology (CPT) codes for ambulance service, and accepted International Common Diagnostic (ICD-9) codes for emergency ambulance service, for all Medicaid claims.

We will continue to comply with this requirement.

- **Insurance Claims:** Contractor will process all insurance claims using Common Procedural Terminology (CPT) codes for emergency ambulance service, and accepted International Common Diagnostic (ICD-9) codes for emergency ambulance service, upon receipt of notice of the appropriate primary insurance (insurance carriers may include Medicare HMO's or Medicaid HMO's); use of either paper format or electronic format, as required, for claims; provision of information as required by the insurance company with all applicable supporting documentation; determination of a secondary carrier to be billed for any remaining balances after payment is received from the primary insurance carrier, and if so, generating an insurance claim to the second carrier including all standard company claims information and acceptable proof of payment from the primary carrier; billing of the patient for co-payments or deductibles.

We will continue to comply with this requirement.

**Refunds:** Contractor will document overpayments or incorrect payments. Copies of this information will be forwarded monthly within Contractor's invoice, for the processing of refunds through proper County procedures.

We will continue to comply with this requirement.

**Returned checks:** Contractor will follow up and collect payment for returned checks.

We will continue to comply with this requirement.

**Claims of Financial Hardship:** Contractor will cooperate with the Nassau County Attorney's Office and the Bureau in the administration of its Financial Assistance Program, as may be amended from time to time. Contractor will be responsible for distributing Financial Assistance applications to patients claiming financial hardship and following up with patients to obtain required documents showing proof of identification, residence, and income. Final determinations of bill reduction and/or settlement shall be subject to the approval of the Nassau County Attorney's Office.

We have worked diligently with the County to develop a Financial Hardship process and it has recently come to fruition. We will comply with all aspects of this requirement.

**Billing complaints:** Contractor to develop and implement standards and procedures to address all billing complaints subject to the approval of County. The Bureau will oversee vendor handling of billing complaints and take appropriate action on an as needed basis.

We will continue to comply with this requirement. We take any patient complaint very seriously. We log and escalate patient disputes to internal Change Healthcare management for quick resolution. Our management personnel will speak to the patient to resolve their issue quickly. Our team will stay close to the issue until it has come to a timely resolution that is satisfactory for all parties involved.

**Credit cards:** Contractor will accept credit cards as a form of payment for ambulance services using a credit card company approved by the County. The Contractor will be responsible for any processing and/or merchant fees associated with accepting credit cards.

As previously stated, we will comply with this requirement. Your patients can pay for services with a credit/debit card by calling the toll-free number printed on their statement or by logging into our secure portal. Change Healthcare will be responsible for all costs associated with accepting credit/debit card payments.

### **Collection Accounts**

Each month, accounts which are deemed uncollectible will be reported to the County for approval for transfer to a Nassau County collection vendor. Accounts will be “marked” uncollectible if there has been no “activity” for one hundred and twenty (120) days after assignment, when the patient or responsible party cannot be located, or where the Contractor, in the reasonable exercise of his/her judgment deems the account uncollectible.

We will continue to comply with this requirement.

### **Ethical Standards**

In all services provided under any contract resulting from this RFP, the Contractor will use maximum, diligent, and timely billing efforts. All the Contractor’s operations must be performed in accordance with the highest standard of legal ethics.

We will continue to comply with this requirement. We have made a formal commitment to be compliant in all aspects of our business. With an annual compliance budget of over \$7 million, we modeled our compliance agenda on the Department of Health and Human Services Office of Inspector General (OIG) Compliance Program Guidance for Third-Party Medical Billing Companies. Integrated into everything we do, we designed our compliance efforts to establish a culture that promotes prevention, detection, and resolution of conduct that conforms to federal and state law. It also conforms to federal, state, and private payer healthcare program requirements as well as our ethical and business policies. Because compliance is so important to us, we have a full-time compliance officer.



Honesty, integrity, and transparency are of the utmost importance to all facets of our business operations and executive leadership. We have adopted and implemented, with full senior executive leadership support, our compliance program which is invaluable in complying with all applicable laws and regulations while continuously building a strong ethical culture. The Code of Conduct is a key document of the compliance program, providing guidance to team members, contractors, and vendors as to appropriate professional and personal conduct required while carrying out daily activities. The Code of Conduct exceeds HIPAA and CMS requirements by

- Clearly communicating our commitment to our policies and procedures, regulations, professional standards, ethical business practices, and workplace standards
- Clearly conveying a message to all colleagues their responsibility for maintaining full compliance with laws and regulations as well as the expectations that they act and represent our business with the highest ethical standards
- Informing all team members about their responsibilities in making ours a successful organization.



The Contractor will comply strictly with any legal requirements or codes of conduct with respect to the collection of debts, communication with debtors made or issued by any governmental agency in any jurisdiction or location in which any attempt to collect the debts described herein is made. Such requirements will include but will not be limited to the following:

- Fair Debt Collection Practices Act, 15 U.S.C. § 1692
- New York State Judiciary Law Article 15, § 489
- New York State General Business Law § 600 and 601
- New York Executive Law § 63, subchapter 12.

We always have and always will comply with all applicable federal, state, and local laws and regulations. Because Change Healthcare is a billing company, not a debt collector, we are not subject to the Fair Debt Collections Practices Act ("FDCPA"). Billing companies send statements for services not billed at the time of service and such amounts are not in default. Billing companies also send the statements in the name of the provider and do not use a third-party name. If a billing vendor were to fully comply with the FDCPA they would need to bill with their own name instead of under their clients' names. The billing vendor would also have to collect the monies received into their own bank account and then forward the money to their clients. Change Healthcare agrees that it will meet the "spirit" of the collections recommendations and agrees as follows: In communications with County's patients, Change Healthcare will not:

- Simulate in any manner a law enforcement officer or a representative of any governmental agency
- Use or threaten force or violence
- Tell a patient who disputes a bill that she or he or any person employing her or him will disclose to another, orally or in writing, directly or indirectly, information affecting the patient's reputation for credit worthiness
- Disclose to a person other than the patient or her or his family information affecting the patient's reputation, whether or not for credit worthiness, with knowledge or reason to know that the other person does not have a legitimate business need for the information or that the information is false
- Willfully communicate with the patient or any member of her or his family with such frequency as can reasonably be expected to harass the patient or her or his family, or willfully engage in other conduct which can reasonably be expected to abuse or harass the patient or any member of her or his family
- Use profane, obscene, vulgar, or willfully abusive language in communicating with the patient or any member of her or his family
- Claim, attempt, or threaten to enforce a client bill if Change Healthcare knows that the bill is not legitimate or assert the existence of some other legal right if Change Healthcare knows that the right does not exist Use a communication which simulates in any manner legal or judicial process or which gives the appearance of being authorized, issued or approved by a government, governmental agency, or attorney at law, when it is not
- Communicate with a patient under the guise of an attorney by using the stationary of an attorney or forms or instruments which only attorneys are authorized to prepare

- Orally communicate with a patient in such a manner as to give the false impression or appearance that the County is or is associated with an attorney
- Publish or post, threaten to publish or cause to be published or posted before the public individual names or any list of names of patients, commonly known as a deadbeat list, to enforce or attempt to enforce collection of the bill.
- Mail any communication to a patient in an envelope or postcard with words typed, written or printed on the outside of the envelope or postcard calculated to embarrass the patient. An example of this would be an envelope addressed to "Deadbeat, Jane Doe" or "Deadbeat, John Doe"
- Communicate with the patient between the hours of 9 p.m. and 8 a.m. in the patient's time zone without prior consent of patient
- Cause charges to be made to any patient for communications by concealment of the true purpose of the communication, including collect telephone calls and telegram fees.

### ***Customer Service Via Telephone and Web Site***

**The Nassau County Police Department places a high priority on delivering courteous and responsive services to the public. In billing and collecting for ambulance services, it is an important goal for the County that the process be convenient for its citizens, and that obtaining appropriate third-party reimbursement be made as simple as possible.**

We will continue to conduct all communications in a professional and courteous manner. As an important part of our business, we are committed to excellent customer service. We understand our customer service department is an extension of your organization and we train our staff to be courteous and helpful when responding to EMS patient phone calls. Our goal is to satisfy all caller issues quickly and courteously.

Callers can leave a voicemail. We will make every effort to respond to voicemails within 24 business hours of receipt.

**The Contractor will establish a multi-line telephone inquiry service upon project initiation to handle patient inquiries. The telephone number will be toll-free in New York State. At a minimum, it is expected that the service will be provided between the hours of 8:00 AM to 6:00 PM, Monday through Friday, excluding national holidays, Eastern Standard time, and the Contractor is encouraged to provide additional days and times of service. Answering machines and telephone message services will not be used during the service window period.**

Customer service representatives are available via a toll-free number Monday through Friday (excluding holidays) from 8:00 a.m. to 6:00 p.m. Eastern to answer any incoming customer service inquiries.

The Contractor will use the telephone service for the following functions:

- Process insurance information for patients
- Elicit additional information from patients in order to re-submit claims, which resulted in eligibility denials.
- Voice activated telephone\*messaging\*will not be permitted
- Respond to correspondence from patients and payers
- Receive and follow up on denials/requests for medical record documentation where appropriate and authorized
- Respond to and resolve all ambulance users' inquiries and complaints regarding the billing and collection of ambulance fees in a prompt and satisfactory manner

We will continue to comply with these requirements.

The Contractor will answer calls to the service and will attempt to resolve any billing problems or questions. Employees answering calls must be proficient in English, be skilled at navigating Contractor's database to access patient billing information and be capable of resolving billing payment issues.

We will continue to comply with this requirement. We choose our customer service specialists carefully. They receive extensive training and possess excellent communication skills. Our staff will interact with your patients as if they were your own staff. Specialists are available during regular business hours. They have instant, on-line access to patient records. Therefore, we can resolve most issues during the initial call. In 17+ years of service, we have had less than a handful of complaints and, in those rare cases, each one was resolved to the patient's satisfaction – this is a strong testament to our dedication to outstanding customer service.

The Contractor will establish a database to document all calls to the inquiry line, and will track all problems, inquiries, and resolutions. Reports describing this database will be provided to the Bureau monthly. An interactive call processor or similar system will be used to handle concurrent requests to the system. For ninety percent (90%) or more of all calls, the average delay period from the time the call is received by the system to the time the call is answered by a Contractor representative will not exceed one minute. The call processor will provide periodic prompts and messages during the waiting period, will provide alternative options for each caller and will estimate the wait until the caller is connected with a customer service representative.

- The Contractor will include the establishment of a secure website exclusively for Bureau billing inquiries and service information
- The contractor will provide the ability to contact the Contractor using electronic mail.

We will continue to comply with these requirements.

The Contractor will coordinate with designated County personnel to establish links to the websites of the County and the Police Department.

We have active links in place for the County and Police Department websites.

***Computer Hardware and Software***

It is anticipated that the Contractor's information systems will include the following features:

- "Real time," interactive information on all transactions, i.e., data will be posted immediately rather than in batches
- Ability to process partial payments
- Ability to process payment adjustments such as returned checks and refunds

Our information systems currently meet these requirements.

The Contractor's proposal should include the provision of computer hardware, software, and peripherals to enable the County to perform the following functions:

- Access the contractor's information management system for monitoring and auditing purposes
- Generate pre-designed reports from current data in the contractor's information management system
- Generate ad hoc reports and correspondence using the then current release of the Microsoft Office software suite
- Transmit EPCR information electronically to the contractor and from the Emergency Ambulance Bureau
- Complete New York State Health Department-required EPCRs and other required information using hand-held devices in each ambulance.

We currently provide the above listed computer hardware, software, and peripherals to the County.

Access to the Contractor's database, for any purpose, must require a password-protected log-on procedure. Each user of the database must have a unique user identification (ID) and password. Only those employees of the Contractor specifically assigned to perform billing and debt collection services for the Bureau may be allowed access to the database of Bureau records. Employees of the Bureau, authorized in writing by the Police Department, will also be given IDs and passwords that allow authorized inquiry access to the Contractor's database of patient accounts. The ability to edit database information will also be restricted to individuals designated by the Contractor and the Bureau and approved by the Bureau. Such access will be restricted using the same system of IDs and passwords described above. Data may be purged from live information system and stored on CD-ROM based on age as determined by the County.

We will continue to comply with this requirement.

The Bureau provides daily operational maintenance and support of all EPCR equipment through its Billing Department's Technical Support Team. The Contractor shall supply approved mobile electronic devices of the Bureau's choosing for collection of EPCR data. It shall be the responsibility of the Contractor to replace any mobile electronic device that is determined to be irreparable by the Billing Department's Technical Support Team. This shall be done within 30 days of such request. Additional items, as outlined below, are either currently in use and supplied by the Contractor, or reflect minimum requirements of the new Contractor. All elements are necessary for operational efficiency.

We currently provide approved mobile electronic devices to the Bureau and will continue to do so under a new contract with the County.

The Contractor shall provide a means to link the EPCR software, the Medical Control radio consoles and the cardiac monitors that are in use by the County. This shall include any hardware and/or software that the County chooses.

We will continue to comply with this requirement.

The Contractor will be responsible for the cost to integrate the EPCR software with the Bureau's existing Computer Aided Dispatch ("CAD") system. (CAD interface) to include initial pay out and yearly maintenance. Purchase, setup, install, maintain & support. Including all setup fees between the CAD vendor and EPCR vendor.

We will comply with this requirement, in fact our service agreement with SafetyPAD already includes services for CAD integration.

The Contractor shall provide computer software, hardware, peripherals and accessories as needed by Bureau, in conformity with such items and materials currently utilized by Bureau. Upgrades and/or expansion of equipment, software, hardware, peripherals and accessory needs as required by Bureau will be responsibility of vendor.(tech hardware/software)

We will continue to provide computer software, hardware, peripherals, and accessories as needed. We currently provide this equipment to the County.

The Contractor will supply the County with a means to securely destroy any HIPPA related paperwork that is no longer needed to be kept on file. This will include an industrial grade shredder, which the contractor shall supply and maintain, and provision of a quarterly on-site commercial shredding service.

We will continue to comply with this requirement.

- The Contractor will provide paid subscriptions to all necessary data storage programs including Emergidata, MedMedia's "Webcur", and any other software program in use by the Ambulance Bureau. If an EPCR/ data storage program is no longer available, the Contractor shall be responsible for downloading, acquiring or purchasing all records and processing them into an easily searchable database for all past patients that the Bureau will own and have unlimited access to.

We will continue to provide these paid subscriptions to the County.

# CHANGE

## HEALTHCARE

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- **The Contractor will provide paid subscriptions to all necessary anti-virus programs, necessary spyware programs, etc. as determined by the Bureau.**

We will continue to provide anti-virus/spyware program paid subscriptions to the County.

- **The Contractor will supply paid subscription and necessary support/hardware and supplies for Lightpath internet for EAB Billing Office. The Contractor will supply three (3) laptop computers, of the Bureau's specifications, with aircards and associated software/subscriptions for use by EAB Billing Tech Support Team. The Contractor will provide up to 2 additional laptop computers, as needed, in the event of expansion of the Bureau's Tech Support Team. The Contractor will provide for replacement of same, at the Bureau's discretion, after two (2) years.**

We will continue to provide these paid subscriptions to the County.

- **The Contractor will supply and support three (3) desktop computers and associated software and hardware of EAB's specifications for administrative use by EAB Billing Office. Associated hardware will include, but not be limited to, 2 high speed scanners and 2 high speed printers. Specifications will be determined by the Bureau. The Contractor will provide for replacement of same, at the bureau's discretion, after two (2) years.**

We currently provide and support three desktop computers and the associated software to the County.

- **The Contractor will provide for in-house supply of parts and sundry items for repair and maintenance of mobile electronic devices.**

We will continue to comply with this requirement.

- **The Contractor will provide an open credit card account, in the name of the Emergency Ambulance Bureau Commanding Officer, with a pre-set monthly dollar amount, for purchase of said parts and supplies.**

We will continue to comply with this requirement.

- **The Contractor will maintain an open warranty and repair/replacement contract with computer manufacturer(s) for necessary repairs and/or replacement of computers that cannot be performed in-house.**

We will continue to comply with this requirement.

- **All items specified reflect minimum requirements for daily operating of the Bureau's Billing Office and Electronic PCR program. All specifications are subject to revision at the Bureau's discretion prior to actual implementation of contract.**

We acknowledge and agree to this requirement.

**To meet performance standards and to be compatible with existing County networks and standards, hardware, software, peripherals and associated service should, meet or exceed the standards. The Contractor must have the ability to meet County network upgrades as necessary.**

We will comply with these requirements.

Equipment and Software must be maintained and updated with sufficient frequency, subject to a biannual review, to remain consistent with industry standards to maximize overall program effectiveness.

We will comply with this requirement.

The Contractor will be required to coordinate with the Information Technology Units of County and Police Department to ensure compatibility with existing information technology systems as required.

We will continue to comply with this requirement.

### ***Transitional Services***

Any contract resulting from this RFP may include tasks related to the transition of responsibilities from the current vendor and the processing of EPCRs received during the period between the termination notification date of the current contract, and a new contract commencement date. It is possible, for example that a backlog may arise during this period. Under such circumstances, the selected Proposer will be expected to work with the County in billing for such accounts.

As your current billing vendor, we will not need to perform any transition activities. We will seamlessly continue to provide services on day one of the new contract with the County.

### ***Contingency Payments based on a Percentage of Revenues Collected***

The Proposer is to be compensated based on a percentage of net revenues. Net revenues are defined as the total sum of all monies collected by the Proposer less amounts refunded or credited to patient or third-party payer as a result of overpayments, erroneous payments or returned checks. Proposers are asked to propose a compensation rate to be set as a fixed percentage of actual revenues collected.

Unless clearly identified as a supplemental cost as described below, this fee is anticipated to include all expenses, including but not limited to skip tracing services, billing services, correspondence, telephone and web site inquiry services, database development and maintenance, reporting, training, compliance, auditing, postage. Fees are further to include all labor, material, equipment overhead, expenses, taxes, and profit necessary to complete the services pursuant to the terms of any agreement resulting from this selection process.

All fees will be capped for the term of the Agreement and will not be subject to increases or markups. Calculation Methodology Compensation will be calculated and paid on a monthly basis. Vendor invoices will detail actual collections and any appropriate adjustments.

The Department will notify the Proposer of payments made directly to the County and will pay the Contractor the contractual rate for all such direct payments collected by the County when they result from the Proposer's actual collection efforts. Payments will not be remitted if the County recalled the account or if the Proposer prior to receipt of the payment returned it. Otherwise, receipts will be presumed to be the result of the Proposer's actual billing.

Adjustments may also be made on a rolling basis each month for any refunds or other appropriate accounting revisions, with the approval of the County.

Our fee quoted on the form provided in Appendix A of the RFP meets the requirements stated above and is inclusive of all services to be provided under the contract with the County.

### ***Proposer Personnel Qualifications and Training***

The Proposer will assign to the Bureau's medical billing program personnel sufficiently skilled to perform the duties and assume the responsibilities described herein. Each employee working on the Bureau's medical billing program will be trained to perform or supervise the services furnished pursuant to this Agreement. Any personnel designated as performing medical diagnostic coding must be certified in the use of International Classification of Diseases codes and Common Procedural Terminology codes. Training of the Proposer's employees will include the requirements governing Medicare billing for a government agency, including Medicare/Medicaid requirements relating to documentation, medical necessity, assignment of diagnostic and procedural codes, and preparation and submission of claims.

The same billing team supervised by Ashley Peters that currently managing the County's account will continue to do so. We will provide ongoing training to our team members as necessary to maintain compliance with all regulations and billing-related requirements.

Training will also include the consequences of failing to comply with applicable laws, including the penalties for fraud and abuse. Each Proposer instructor providing the training will be proficient in each subject that will be taught. It is further anticipated that the Proposer will furnish a review course on at least an annual basis to all employees performing medical necessity determination and medical diagnostic coding services. The annual course will review and update the compliance procedures and project services, and will not serve as a substitute course for the complete training described above.

We will continue to comply with these requirements.

At the sole option of the County, the Proposer will include up to six (6) County employees in all training described above. Any training materials provided for Proposer employees will also be provided to participating County employees.

We will continue to comply with this requirement.

The Proposer will make reasonable inquiries into the background of prospective personnel to be employed for this program, and periodic review of employees providing Services herein for the program. The Proposer will not utilize any personnel for the provision of services that is listed by a Federal Agency as suspended, debarred, excluded or otherwise ineligible for Federal program participation.

It is our policy to perform background checks on all potential team members before hiring. We perform background checks to verify that individuals are not currently excluded, suspended, debarred, or otherwise ineligible to participate in any federal or state healthcare program or in federally funded programs.



**EXHIBIT B**  
**CONFIDENTIALITY AGREEMENT**

Contractor and Nassau County ("County") have entered into an agreement whereby Contractor provides certain services (the "Services") to County (the "Contract for Services" or "Agreement"). County has entered into a contractual relationship with \_\_\_\_\_ [*insert name of person/entity performing the audit*] ("Recipient") and instructs Contractor to allow Recipient to review certain information in Contractor's possession regarding County's business and accounts receivable billing and collections performed by Contractor ("County Proprietary Information"). Therefore, in consideration of the mutual covenants and conditions contained in this Confidentiality Agreement (the "Confidentiality Agreement"), Recipient and County agree as follows:

A. During the course of Recipient's examination and review of County Proprietary Information, Recipient may be exposed to or review certain proprietary information regarding Contractor ("Contractor Proprietary Information"). Contractor Proprietary Information refers to any and all data and information relating to the business of Contractor which has value to Contractor and is not generally known by its competitors or the public, including, without limitation, financial information, inventions, methods, techniques, actual or potential customers and suppliers, the Agreement, Contractor's business practices or other trade secrets or confidential information of Contractor, all report formats, and existing and future products and computer systems and software. Recipient acknowledges and agrees that all Contractor Proprietary Information and all physical embodiments thereof are confidential to Contractor and are and will remain the sole and exclusive property of Contractor. All Contractor Proprietary Information acquired by Recipient will be kept strictly confidential and will not be disclosed to any other person or entity (including any entity affiliated with or any division of Recipient).

B. Contractor Proprietary Information does not include information which (i) is publicly known or which becomes publicly known through no act or failure to act on the part of Recipient; (ii) is lawfully obtained by Recipient from any third party entitled to disclose such information; (iii) is in the lawful possession of Recipient prior to such information having been disclosed to Recipient by Contractor; or (iv) is independently developed by Recipient.

C. Recipient further agrees that during Recipient's engagement by County and for a period of one (1) year following any termination of Recipient's engagement for whatever reason, Recipient will not, directly or indirectly, on Recipient's own behalf or in the service of, or on behalf of any other individual or entity, divert, solicit or hire away, or attempt to divert, solicit or hire away, to or for any individual or entity, any person employed by Contractor, whether or not such employee is a full-time employee, temporary employee, leased employee or independent contractor of Contractor, whether or not such employee is employed pursuant to written agreement and whether or not such employee is employed for a determined period or at-will.

D. Recipient acknowledges that great loss and irreparable damage would be suffered by Contractor if Recipient should breach or violate the terms of this Confidentiality Agreement. In the event Recipient breaches or violates this Confidentiality Agreement, Recipient agrees that Contractor would not have an adequate remedy at law and, therefore, that Contractor would be entitled to a temporary restraining order and permanent injunction to prevent a breach of any of the terms or provisions contained in this Confidentiality Agreement, in addition to any monetary damages that may be available at law or equity. Recipient's obligations under this Confidentiality Agreement will survive indefinitely.

E. Recipient represents and warrants that (i) it has the full power and authority to enter into this Confidentiality Agreement, and (ii) the person executing this Confidentiality Agreement has the full power and authority to do so.

IN WITNESS WHEREOF, Recipient has signed this Confidentiality Agreement as of the date below written.

**RECIPIENT:** \_\_\_\_\_

**CLIENT: NASSAU COUNTY**

By: \_\_\_\_\_  
By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SAMPLE**

(No Signature Required)

Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SAMPLE**

(No Signature Required)

## **EXHIBIT C BUSINESS ASSOCIATE AGREEMENT**

This Business Associate Agreement (“Agreement”) is entered into by and between Service Provider (“Business Associate”) and the County of Nassau, on behalf of the Nassau County Police Department (“Covered Entity”). Business Associate and Covered Entity may be individually referred to as a “Party” and, collectively, the “Parties” in this Agreement. This Agreement shall be incorporated into and made part of the Underlying Agreement (as defined below).

### **STATEMENT OF PURPOSE**

Pursuant to the Underlying Agreement, Business Associate provides services to Covered Entity and Covered Entity discloses certain information, including PHI (as defined below), to Business Associate. The purpose of this Agreement is to protect the privacy and provide for the security of such PHI in compliance with the Privacy Rule and Security Rule.

### **SECTION 1: DEFINITIONS**

“**Electronic Protected Health Information**” or “**Electronic PHI**” will have the meaning given to such term under the Privacy Rule and the Security Rule, including, but not limited to, 45 C.F.R. § 160.103, as applied to the information that Business Associate creates, receives, maintains or transmits from or on behalf of Covered Entity.

“**Privacy Rule**” will mean the Standards for Privacy of Individually Identifiable Health Information at 45 C.F.R. Part 160 and Part 164, Subparts A and E.

“**Protected Health Information**” or “**PHI**” will have the same meaning as the term “protected health information” in 45 C.F.R. § 160.103, as applied to the information created, received, maintained or transmitted by Business Associate from or on behalf of Covered Entity.

“**Security Rule**” will mean the Security Standards at 45 C.F.R. Part 160 and Part 164, Subparts A and C

“**Underlying Agreement**” will mean the applicable written services agreement(s) between Covered Entity and Business Associate under which Covered Entity may disclose PHI to Business Associate.

**Capitalized Terms.** Capitalized terms used in this Agreement and not otherwise defined herein will have the meanings set forth in the Privacy Rule and the Security Rule which definitions are incorporated in this Agreement by reference.

### **SECTION 2: PERMITTED USES AND DISCLOSURES OF PHI**

2.1 Uses and Disclosures of PHI Pursuant to the Underlying Agreement. Except as otherwise limited in this Agreement, Business Associate may use or disclose PHI to perform functions, activities or services for, or on behalf of, Covered Entity as specified in the Underlying Agreement, provided that such use or disclosure would not violate the Privacy Rule if done by Covered Entity.

2.2 Permitted Uses of PHI by Business Associate. Except as otherwise limited in this Agreement, Business Associate may use PHI for the proper management and administration of Business Associate or to carry out the legal responsibilities of Business Associate.

2.3 Permitted Disclosures of PHI by Business Associate. Except as otherwise limited in this Agreement, Business Associate may disclose PHI for the proper management and administration of Business

Associate, provided that the disclosures are Required by Law, or Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and will be used or further disclosed only as Required by Law or for the purpose for which it was disclosed to the person (which purpose must be consistent with the limitations imposed upon Business Associate pursuant to this Agreement), and that the person agrees to notify Business Associate of any instances in which it is aware that the confidentiality of the information has been breached.

2.4 Data Aggregation. Except as otherwise limited in this Agreement, Business Associate may use PHI to provide Data Aggregation services for the Health Care Operations of the Covered Entity as permitted by 45 C.F.R. § 164.504(e)(2)(i)(B).

2.5 De-identified Data. Business Associate may de-identify PHI in accordance with the standards set forth in 45 C.F.R. § 164.514(b) and may use or disclose such de-identified data unless prohibited by applicable law.

### **SECTION 3: OBLIGATIONS OF BUSINESS ASSOCIATE**

3.1 Appropriate Safeguards. Business Associate will use appropriate administrative, physical, and technical safeguards to comply with the Security Rule with respect to Electronic PHI, to prevent use or disclosure of such information other than as provided for by the Underlying Agreement and this Agreement. Except as expressly provided in the Underlying Agreement or this Agreement, Business Associate will not assume any obligations of Covered Entity under the Privacy Rule. To the extent that Business Associate is to carry out any of Covered Entity's obligations under the Privacy Rule, Business Associate will comply with the requirements of the Privacy Rule that apply to Covered Entity in the performance of such obligations.

3.2 Reporting of Improper Use or Disclosure, Security Incident or Breach. Business Associate will report to Covered Entity any use or disclosure of PHI not permitted under this Agreement, Breach of Unsecured PHI or any Security Incident, without unreasonable delay, and in any event no more than fourteen (14) days following discovery; provided, however, that the Parties acknowledge and agree that this Section constitutes notice by Business Associate to Covered Entity of the ongoing existence and occurrence of attempted but Unsuccessful Security Incidents (as defined below). "Unsuccessful Security Incidents" will include, but not be limited to, pings and other broadcast attacks on Business Associate's firewall, port scans, unsuccessful log-on attempts, denials of service and any combination of the above, so long as no such incident results in unauthorized access, use or disclosure of PHI. Business Associate's notification to Covered Entity of a Breach will comply with the requirements set forth in 45 C.F.R. § 164.404.

3.3 Business Associate's Agents. Business Associate will enter into a written agreement with any agent or subcontractor that creates, receives, maintains or transmits PHI on behalf of Business Associate for services provided to Covered Entity, providing that the agent agrees to restrictions and conditions that are no less restrictive than those that apply through this Agreement to Business Associate with respect to such PHI. Business Associate must obtain Covered Entity's approval prior to engaging a subcontractor to provide services pursuant to the Underlying Agreement on behalf of Covered Entity.

3.4 Access to PHI. To the extent Business Associate agrees in the Underlying Agreement to maintain any PHI in a Designated Record Set, Business Associate agrees to make such information available to Covered Entity pursuant to 45 C.F.R. § 164.524, within ten (10) business days of Business Associate's receipt of a written request from Covered Entity; provided, however, that Business Associate is not required to provide such access where the PHI contained in a Designated Record Set is duplicative of the PHI contained in a Designated Record Set possessed by Covered Entity.

3.5 Amendment of PHI. To the extent Business Associate agrees in the Underlying Agreement to maintain any PHI in a Designated Record Set, Business Associate agrees to make such information

available to Covered Entity for amendment pursuant to 45 C.F.R. § 164.526 within ten (10) business days of Business Associate's receipt of a written request from Covered Entity.

3.6 Documentation of Disclosures. Business Associate will document disclosures of PHI and information related to such disclosures as would be required for Covered Entity to respond to a request by an Individual for an accounting of disclosures of PHI in accordance with 45 C.F.R. § 164.528.

3.7 Accounting of Disclosures. Business Associate will provide to Covered Entity, within twenty (20) business days of Business Associate's receipt of a written request from Covered Entity, information collected in accordance with Section 3.6 of this Agreement, to permit Covered Entity to respond to a request by an Individual for an accounting of disclosures of PHI in accordance with 45 C.F.R. § 164.528.

3.8 Governmental Access to Records. Business Associate will make its internal practices, books and records relating to the use and disclosure of PHI received from, or created or received by Business Associate on behalf of, Covered Entity available to the Secretary for purposes of the Secretary determining compliance with the Privacy Rule and the Security Rule.

3.9 Mitigation. To the extent practicable, Business Associate will cooperate with Covered Entity's efforts to mitigate a harmful effect that is known to Business Associate of a use or disclosure of PHI by Business Associate that is not permitted by this Agreement.

3.10 Minimum Necessary. Business Associate will request, use and disclose the minimum amount of PHI necessary to accomplish the purpose of the request, use or disclosure, in accordance with 45 C.F.R. § 164.514(d), and any amendments thereto.

#### **SECTION 4: CHANGES TO PHI AUTHORIZATIONS**

Covered Entity will notify Business Associate fifteen (15) days, if practicable, prior to the effective date of (1) any limitation(s) in its notice of privacy practices in accordance with 45 C.F.R. § 164.520, (2) any changes in, or revocation of, permission by an Individual to use or disclose PHI, or (3) any restriction to the use or disclosure of PHI that Covered Entity has agreed to in accordance with 45 C.F.R. § 164.522. Covered Entity will make such notification to the extent that such limitation, restriction, or change may affect Business Associate's use or disclosure of PHI.

#### **SECTION 5: TERM AND TERMINATION**

5.1 Term. The term of this Agreement will commence as of the Effective Date, and will terminate when all of the PHI provided by Covered Entity to Business Associate, or created or received by Business Associate on behalf of Covered Entity, is destroyed or returned to Covered Entity.

5.2 Termination for Cause. Upon either Party's knowledge of a material breach by the other Party of this Agreement, such Party may terminate this Agreement immediately if cure is not possible. Otherwise, the non-breaching party will provide written notice to the breaching Party detailing the nature of the breach and providing an opportunity to cure the breach within thirty (30) business days. Upon the expiration of such thirty (30) day cure period, the non-breaching Party may terminate this Agreement and the affected underlying product or service if the breaching party does not cure the breach or if cure is not possible.

5.3 Effect of Termination.

5.3.1 Except as provided in Section 5.3.2, upon termination of the Underlying Agreement or this Agreement for any reason, Business Associate will return or destroy all PHI received from Covered Entity, or created or received by Business Associate on behalf of Covered Entity, at Covered Entity's expense, and will retain no copies of the PHI. This provision will apply to PHI that is in the possession of subcontractors or agents of Business Associate.

5.3.2 If it is infeasible for Business Associate to return or destroy the PHI upon termination of the Underlying Agreement or this Agreement, Business Associate will: (a) extend the protections of this

Agreement to such PHI and (b) limit further uses and disclosures of such PHI to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such PHI.

5.3.3 The respective rights and obligations of Business Associate under Section 5.3 of this Agreement will survive the termination of this Agreement and the Underlying Agreement.

## **SECTION 6: COOPERATION IN INVESTIGATIONS**

The Parties acknowledge that certain breaches or violations of this Agreement may result in litigation or investigations pursued by federal or state governmental authorities of the United States resulting in civil liability or criminal penalties. Each Party will cooperate in good faith in all respects with the other Party in connection with any request by a federal or state governmental authority for additional information and documents or any governmental investigation, complaint, action or other inquiry.

## **SECTION 7: COMPLIANCE WITH LAW**

Business Associate will comply with all applicable federal privacy and security laws governing PHI, as they may be amended from time to time.

## **SECTION 8: AMENDMENT**

This Agreement may be modified, or any rights under it waived, only by a written document executed by the authorized representatives of both Parties. In addition, if any relevant provision of the Privacy Rule or the Security Rule is amended in a manner that changes the obligations of Business Associate or Covered Entity that are embodied in terms of this Agreement, then the Parties agree to negotiate in good faith appropriate non-financial terms or amendments to this Agreement to give effect to such revised obligations.

## **SECTION 9: GENERAL**

This Agreement is governed by, and will be construed in accordance with, the laws of the State that govern the Underlying Agreement. Neither Party will assign this Agreement without the prior written consent of the other Party, which will not be unreasonably withheld. All notices relating to the Parties' legal rights and remedies under this Agreement will be provided in writing to a Party, will be sent to its address set forth in the Underlying Agreement, or to such other address as may be designated by that Party by notice to the sending Party, and will reference this Agreement. Nothing in this Agreement will confer any right, remedy, or obligation upon anyone other than Covered Entity and Business Associate.

# Certificate of No Change Form



All fields must be filled.

A materially false statement willfully or fraudulently made in connection with this certification, and/or the failure to conduct appropriate due diligence in verifying the information that is the subject of this certification, may result in rendering the submitting entity non-responsible for the purpose of contract award.

A materially false statement willfully or fraudulently made in connection with this certification may subject the person making the false statement to criminal charges.

I, Scott Schrader state that I have read and understand all the items contained in the disclosure documents listed below and certify that as of this date, these items have not changed. I further certify that, to the best of my knowledge, information and belief, those answers are full, complete, and accurate; and that, to the best of my knowledge, information, and belief, those answers continue to be full, complete, and accurate.

In addition, I further certify on behalf of the submitting vendor that the information contained in the principal questionnaire(s) have not changed and have been verified and continue, to the best of my knowledge, to be full, complete and accurate.

I understand that Nassau County will rely on the information supplied in this certification as additional inducement to enter into a contract with the submitting entity.

## Vendor Disclosures

*This refers to the vendor integrity and disclosure forms submitted for the vendor doing business with the County.*

Name of Submitting Entity: Change Healthcare Technology Enabled Services LLC

Vendor's Address: 3055 Lebanon Pike Nashville TN US 37214

Vendor's EIN or TIN: ██████████

Forms Submitted: \_\_\_\_\_

Political Campaign Contribution Disclosure Form:  
01/02/2020 01:36:40 PM

Lobbyist Registration and Disclosure Form:  
There are no certified Lobbyist Registration and Disclosure Forms for this organization.

Business History Form certified:  
01/02/2020 01:39:33 PM

Consultant's, Contractor's, and Vendor's Disclosure Form:  
04/27/2020 02:29:13 PM

## Principal Questionnaire(s)

*This refers to the most recent principal questionnaire submissions.*

No principal questionnaires have been selected.

I, Scott Schrader hereby acknowledge that a materially false statement willfully or fraudulently made in connection with this form may result in rendering the submitting business entity and/or any affiliated entities non-responsible, and, in addition, may subject me to criminal charges.

I further certify that I have read and understand all the items contained in this form; that I supplied full and complete answers to each item therein to the best of my knowledge, information and belief; that I will notify the County in writing of any change in circumstances occurring after the submission of this form; and that all information supplied by me is true to the best of my knowledge, information and belief. I understand that the County will rely on the information supplied in this form as additional inducement to enter into a contract with the submitting business entity

### CERTIFICATION

A MATERIALLY FALSE STATEMENT WILLFULLY OR FRAUDULENTLY MADE IN CONNECTION WITH THIS QUESTIONNAIRE MAY RESULT IN RENDERING THE SUBMITTING BUSINESS ENTITY NOT RESPONSIBLE WITH RESPECT TO THE PRESENT BID OR FUTURE BIDS, AND, IN ADDITION, MAY SUBJECT THE PERSON MAKING THE FALSE STATEMENT TO CRIMINAL CHARGES."

Scott Schrader

*Name*

Chief Commercial Officer, TES

*Title*

Change Healthcare Technology Enabled Services LLC

*Name of Submitting Entity*

04/27/2020 02:39:47 PM

*Date*



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
03/02/2020

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an **ADDITIONAL INSURED**, the policy(ies) must have **ADDITIONAL INSURED** provisions or be endorsed. If **SUBROGATION** IS **WAIVED**, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> MARSH, INC. 1801 WEST END AVE., SUITE 1400 NASHVILLE, TN 37203 Attn: Tammy.A.Adcock@marsh.com	<b>CONTACT NAME:</b> Tammy Adcock <b>PHONE (A/C, No. Ext):</b> 615-340-2444 <b>E-MAIL ADDRESS:</b> Tammy.A.Adcock@marsh.com <b>FAX (A/C, No):</b>
<b>INSURED</b> Change Healthcare LLC 3055 Lebanon Pike, Ste 1000 Nashville, TN 37214	<b>INSURER(S) AFFORDING COVERAGE</b> <b>INSURER A:</b> Charter Oak Fire Insurance Company <b>INSURER B:</b> The Travelers Indemnity Company <b>INSURER C:</b> Starr Indemnity & Liability Company <b>INSURER D:</b> Travelers Property Casualty Company Of America <b>INSURER E:</b> <b>INSURER F:</b>
CN119046153-EMDEO-GAWU-20-	<b>NAIC #</b> 25615 25658 38318 25674

**COVERAGES** **CERTIFICATE NUMBER:** ATL-004820742-05 **REVISION NUMBER:** 4

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSD WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> <b>COMMERCIAL GENERAL LIABILITY</b> <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:		660-0J60255	03/01/2020	03/01/2021	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000
B	<input checked="" type="checkbox"/> <b>AUTOMOBILE LIABILITY</b> <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS ONLY <input checked="" type="checkbox"/> NON-OWNED AUTOS ONLY		BA 1P082893	03/01/2020	03/01/2021	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
D	<input checked="" type="checkbox"/> <b>UMBRELLA LIAB</b> <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED <input checked="" type="checkbox"/> RETENTION \$ 10,000		CUP 1J64882A	03/01/2020	03/01/2021	EACH OCCURRENCE \$ 20,000,000 AGGREGATE \$ 20,000,000
C	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y / N <input checked="" type="checkbox"/> N	1000002641 (AOS) 1000002642-TX,AZ,CT,IA,NJ, NY,VT 1000002643 (WI) 1000002644 (FL,MA,AK)	03/01/2020 03/01/2020 03/01/2020 03/01/2020	03/01/2021 03/01/2021 03/01/2021 03/01/2021	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000

**DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES** (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)  
Re: Operations: Billing related services contract with Nassau Police Department.

The Certificate Holder is included as additional insured where required by written contract with respect to General Liability.

<b>CERTIFICATE HOLDER</b> Nassau County Police Department Attn: Commanding Officer 1490 Franklin Ave Mineola, NY 11501	<b>CANCELLATION</b> SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.  AUTHORIZED REPRESENTATIVE of Marsh USA Inc. Stephen R. Earp <i>Stephen R. Earp</i>
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