# CareCore National, LLC
# and Subsidiaries
# dba eviCore healthcare

**(a wholly-owned subsidiary of Express Scripts Holding Company)**

## Consolidated Financial Statements
## For the Years Ended December 31, 2017 and 2016

## Contents

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# Report of Independent Auditors

To the Management Committee of
CareCore National, LLC and Subsidiaries dba eviCore healthcare:

We have audited the accompanying consolidated financial statements of CareCore National, LLC and Subsidiaries dba eviCore healthcare, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated balance sheets, statements of operations, of member's equity and of cash flows for the years then ended.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CareCore National, LLC and Subsidiaries dba eviCore healthcare as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Nashville, TN
May 3, 2018

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 105,079 | $ 161,522 |
| Restricted cash | 20,249 | 20,465 |
| Accounts receivable, net | 168,404 | 120,493 |
| Other receivable | - | 40,000 |
| Prepaid expenses and other | 13,395 | 11,185 |
| Total current assets | 307,127 | 353,665 |
| Property and equipment, net | 20,528 | 28,581 |
| Computer software, net | 47,888 | 51,034 |
| Intangible assets, net | 447,963 | 573,051 |
| Goodwill | 711,705 | 711,705 |
| Other assets | 3,518 | 5,010 |
| Total assets | $ 1,538,729 | $ 1,723,046 |
| **Liabilities and Member's Equity** | | |
| Current liabilities: | | |
| Medical claims payable | $ 224,734 | $ 178,306 |
| Accounts payable and accrued liabilities | 108,416 | 121,723 |
| Capital lease obligations, current portion | 7,985 | 8,812 |
| Notes payable, current portion | - | 9,349 |
| Deferred revenue | 6,458 | 9,782 |
| Total current liabilities | 347,593 | 327,972 |
| Capital lease obligations, less current portion | 2,440 | 8,984 |
| Notes payable, less current portion | - | 909,284 |
| Deferred income tax liabilities | 70,947 | 128,276 |
| Other liabilities | 6,162 | 4,608 |
| Total liabilities | 427,142 | 1,379,124 |
| Member's equity | 1,111,587 | 343,922 |
| Total member's equity | 1,111,587 | 343,922 |
| Total liabilities and member's equity | $ 1,538,729 | $ 1,723,046 |

| | 2017 | 2016 |
|---|---|---|
| **Revenues:** | | |
| Managed care revenue | $ 2,360,274 | $ 1,828,022 |
| **Operating expenses:** | | |
| Medical claims expense | 1,664,421 | 1,241,920 |
| Direct service costs | 308,991 | 280,820 |
| Sales, general, and administrative | 119,058 | 109,306 |
| Depreciation, amortization and non-cash equity-based compensation | 165,954 | 95,334 |
| Settlement-related costs | 527 | 15,500 |
| Integration and transaction-related expenses | 75,095 | 3,330 |
| Total operating expenses | 2,334,046 | 1,746,210 |
| Income from operations | 26,228 | 81,812 |
| **Other expenses:** | | |
| Interest expense, net | 81,855 | 64,398 |
| Other expense | 1,084 | 677 |
| Income (loss) before income taxes | (56,712) | 16,737 |
| (Benefit) provision for income taxes | (14,979) | 18,034 |
| Net loss | $ (41,733) | $ (1,297) |

| | | Member's Equity |
|---|---|---|
| **Balance at December 31, 2015** | | 332,368 |
| Net loss | | (1,297) |
| Equity-based compensation | | 3,287 |
| Distributions to member | | (1,900) |
| Capital issued in business combination | | 2,556 |
| Capital issued associated with warrants | | 8,776 |
| Other, net | | 131 |
| **Balance at December 31, 2016** | $ | 343,922 |
| Net loss | | (41,733) |
| Equity-based compensation | | 12,248 |
| Distributions to member | | (5,150) |
| Capital issued in business combination | | 802,064 |
| Other, net | | 236 |
| **Balance at December 31, 2017** | $ | 1,111,587 |

| | 2017 | 2016 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (41,733) | $ (1,297) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 80,932 | 92,047 |
| Loss on impairment of intangible assets | 72,774 | - |
| Deferred income taxes | (57,330) | (17,600) |
| Amortization of debt issuance costs and discount | 7,413 | 6,467 |
| Loss on debt extinguishment | 21,933 | - |
| Loss on sale/disposal of assets | 3,131 | 68 |
| Equity-based compensation | 12,248 | 3,287 |
| Change in fair value of contingent consideration | 13,791 | - |
| Changes in operating assets and liabilities, net of effects from acquisition: | | |
| Accounts receivable | (48,529) | (39,035) |
| Cash paid related to regulatory settlement, net of escrow proceeds | (14,561) | - |
| Prepaid expenses and other assets | (1,698) | 6,435 |
| Accounts payable, accrued and other liabilities | 35,298 | 13,445 |
| Medical claims payable | 46,429 | 35,315 |
| Deferred revenue | (3,324) | 5,425 |
| Net cash provided by operating activities | 126,774 | 104,557 |
| **Investing activities** | | |
| Purchases of property, equipment, and software | (23,882) | (16,827) |
| Proceeds from sale of property and equipment | 3,575 | - |
| Restricted cash, net | 217 | 3,634 |
| Cash paid for acquisition, net of cash acquired | - | (9,787) |
| Other, net | (247) | - |
| Net cash used in investing activities | (20,337) | (22,980) |
| **Financing activities** | | |
| Repayment of notes payable and capital lease obligations | (151,262) | (27,604) |
| Debt and equity issuance costs | (1,718) | (195) |
| Distributions to member | (5,150) | (1,900) |
| Installment payment related to acquisition | (5,000) | (5,000) |
| Other, net | 250 | 132 |
| Net cash used in financing activities | (162,880) | (34,567) |
| Net increase in cash and cash equivalents | (56,443) | 47,010 |
| Cash and cash equivalents at beginning of period | 161,522 | 114,512 |
| Cash and cash equivalents at end of period | $ 105,079 | $ 161,522 |

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Supplemental disclosure of cash flow information** | | | | |
| Cash paid for interest | $ | 54,485 | $ | 57,854 |
| Cash paid for income taxes | | 46,284 | | 29,561 |
| Assets acquired through capital leases and accounts payable | | 2,751 | | 11,747 |
| Acquisition financed through installment payments, issuance of equity, and unsecured notes (Note 3) | | - | | 55,127 |
| Debt extinguishment financed through capital contribution (Note 3) | | 802,064 | | - |

## 1. Organization and nature of business

CareCore National, LLC and Subsidiaries dba eviCore healthcare (hereinafter, collectively referred to as eviCore or the Company) is a limited liability company organized in the State of New York. eviCore is a wholly-owned subsidiary of CareCore National Intermediate Holdings, LLC (CCN Intermediate Holdings), whose parent is CareCore National Group, LLC (CCN Group).

On December 15, 2017, Express Scripts Holding Company (Express Scripts), a publicly traded Delaware corporation, acquired, through a series of mergers, 100% of the outstanding ownership interests of CCN Group (see Note 3 – Acquisitions and divestiture). Express Scripts provides integrated pharmacy benefit management services, including network-pharmacy claims processing, home delivery pharmacy care, specialty pharmacy care, specialty benefit management, benefit-design consultation, drug utilization review, formulary management, and medical and drug data analysis services.

eviCore provides medical benefits management and administrative services on behalf of customers that are primarily sponsors of health benefit plans including health maintenance organizations, health insurers, state government agencies, and other managed care organizations (collectively, the health plans). The Company's services involve the design and administration of innovative solutions that combine advanced analytics, technology, and clinical excellence aimed at improving the quality of care in the areas of diagnostic testing and imaging, comprehensive musculoskeletal, oncology, laboratory, cardiac and post-acute services while optimizing the cost of care for the health plan's members.

eviCore provides medical benefit management services through either risk-based products, where the Company provides services such as prior authorization review, case and discharge management, site of care selection, claims administration and/or provider network management, and assumes the responsibility for the cost of providing care to the health plan's members in exchange for a fixed per-member-per-month or cost-plus fee, and/or administrative services only products, where the Company provides similar services but does not assume responsibility for the cost of care. eviCore maintains a network of credentialed healthcare providers that is integrated with its clinical and quality improvement programs. The Company does not directly provide or own any healthcare providers, although it does employ licensed medical professionals and other clinicians as part of providing healthcare management services to the health plans.

## 2. Significant accounting policies

### Principles of consolidation

The accompanying consolidated financial statements include the accounts of eviCore and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

### Basis of presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP). Those standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Acquired (through business combinations), purchased and internally developed software costs were previously presented as a component of property and equipment and have been reclassified as computer software in the consolidated balance sheets as of December 31, 2017 and 2016. The reclassification has also been applied to Note 5 – Property and equipment and Note 6 – Computer software.

In 2017, the Company recorded an out of period adjustment of $3,272 to equity-based compensation expense as a result of an error identified in the valuation model used for equity-based awards which overstated previously reported equity-based compensation expense. Revenue and medical claims cost also include an out of period adjustment to revenue and medical claims cost of $6,644 and $5,252, respectively, related to an error in accounting for a contract which understated amounts previously reported. The Company evaluated the impact of the errors for each period affected in the previously issued and current year financial statements and concluded the impact was not material. Accordingly, a net out of period increase of $4,664 was recorded to income from operations during the year ended December 31, 2017.

### Cash and cash equivalents

The Company considers all money market funds with an original or remaining maturity at date of purchase of three months or less to be cash equivalents. Cash and cash equivalents may include deposits at various financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insured limits.

### Restricted cash

Restricted cash includes cash deposits required to be held as reserves in accordance with certain agreements to satisfy claims payment or other collateral requirements, including cash deposits held to collateralize irrevocable letters of credit which support the

Company's performance under certain contracts with healthcare providers, deposits held by state regulators to comply with minimum statutory capital or other requirements for regulated subsidiaries, and funds held in escrow related to acquisition of businesses.

In conjunction with certain agreements, the Company is required to comply with the regulations of the New Jersey Department of Banking and Insurance, including minimum deposit and net worth requirements.  At December 31, 2017 and 2016, restricted cash included deposits held by the State of New Jersey in the amount of $5,340 and $4,383, respectively.  As of December 31, 2017 and 2016, the Company was in compliance with these requirements.

**Accounts receivable**

The Company's accounts receivable are primarily generated by providing medical benefit management services to health plans. Accounts receivable are reported at the invoiced amount or net unbilled amounts.  Unbilled receivables represent amounts due from health plans at contracted rates, including estimated incurred-but-not-reported medical claims as of the reporting date, and are billed once contractual settlement provisions have been met, at least annually. An allowance for doubtful accounts is established for the estimated amount of probable credit losses. Management determines the allowance based on historical write-off experience and actual payer information. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of December 31, 2017 and 2016, the allowance for doubtful accounts was $140 and $1,330, respectively.

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation, except for assets identified as impaired for which the carrying amount has been reduced to estimated fair value.  Certain assets acquired under capital leases are recorded at the lower of minimum lease payments or the fair value of the assets.  Depreciation is provided on a straight-line basis over the following estimated useful lives:

| | Years |
|---|---|
| Buildings | 39 |
| Furniture and fixtures | 7 |
| Office equipment | 3–7 |
| Leasehold improvements | 5–7 |

Leasehold improvements and assets acquired under capital leases are depreciated on a straight-line basis over the lesser of the useful lives of the related asset or the lease term. Depreciation on assets acquired under capital leases is included with depreciation expense of owned assets. Upon replacement or sale, the cost of assets disposed and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to earnings. Major improvements that extend the useful life or add functionality to property and equipment are capitalized. Repair and maintenance costs are expensed as incurred. The Company evaluates property and equipment for impairment when triggering events or changes in circumstances indicate the carrying amount of an asset or asset group may exceed its estimated fair value. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

**Computer software**

Computer software includes acquired (through business combinations), purchased and internally developed software. We capitalize internal costs incurred to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable the project will be completed and the software will be used as intended. Costs incurred prior to meeting these criteria, together with costs incurred for repairs and maintenance, are expensed as incurred. Costs incurred for upgrades and significant enhancements that result in additional functionality are also capitalized. All capitalized costs are depreciated on a straight-line basis, which approximates the expected pattern of benefit, over periods from 3 to 5 years.

**Intangible assets**

Definite-lived intangible assets are initially recorded at fair value and are amortized using a basis consistent with the timing and pattern of expected cash flows used to value the intangibles, generally on a straight-line basis over their estimated useful lives. Definite-lived intangible assets are evaluated for impairment when triggering events or changes in circumstances indicate the carrying amount of an asset may exceed its estimated fair value.

**Goodwill**

Goodwill represents the excess of purchase price consideration paid that exceeds the fair value of identifiable net tangible and intangible assets for businesses acquired. Our goodwill is not amortized, but instead evaluated for impairment annually during the fourth quarter or when events or circumstances occur indicating goodwill might be impaired. This evaluation is performed at the reporting unit level. The Company has identified a single reporting unit based on its current operating and reporting structure for which discrete financial information is available and reviewed regularly by management.

The identification and measurement of goodwill impairment involves the estimation of the fair value of individual reporting units based on the best information available as of the date of the assessment. Generally, fair value is determined using the cost, income, or market approach using assumptions based on a hypothetical market participant. Actual results may differ from these estimates due to the inherent uncertainty involved in such estimates. As part of the annual goodwill impairment evaluation, we may elect to first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. Based on the result of this assessment, or if we elect to not perform a qualitative assessment, we perform a quantitative assessment by comparing the fair value of a reporting unit with its carrying value. We performed a qualitative assessment for 100% of our goodwill for the year ended December 31, 2017 and 2016.

**Medical claims expense and medical claims payable**

Medical claims expense is recognized in the period in which eligible members of the health plans receive healthcare services or are admitted into a provider facility. Medical claims expense includes the cost of claims incurred and paid, and an estimate of medical claims payable related to healthcare services provided to eligible members of the health plans. Medical claims payable includes the ultimate net cost for medical claims reported but not yet paid, reserves for estimated incurred-but-not-reported medical claims, estimated costs of future health care services to be rendered but presently obligated to provide, and related loss adjustment expenses.

The claims reserves are established using generally accepted actuarial methods. The Company estimates the claims reserves based upon historical data, including the period between the date services are rendered or the patient is admitted into a provider and the date claims are reported and paid, enrollment data, utilization statistics for authorized healthcare services, contractual provisions with the health plans, and other relevant factors. Factors that affect claims reserve estimates include benefit changes to eligible members, enrollment changes, shifts in product mix, seasonality influences, provider reimbursement rate changes, and the speed of claims processing and payment. The claims reserves do not represent an exact calculation of exposure, but rather our best estimate of what we expect the ultimate settlement and adjudication of a claim will cost based on facts and circumstances known at the time of determination. The claims reserve estimates are refined as experience develops and adjustments, both favorable and unfavorable, to prior period estimates are reflected in the consolidated statement of operations in the period in which such estimates are revised. Because establishment of these reserves is an inherently uncertain process involving estimates of future losses, there can be no certainty that ultimate losses will not exceed existing claims reserves. Based on information currently available, the Company believes our claims reserves are adequate.

**Revenue recognition**

Managed care revenue consists of revenues generated through capitated risk, fee-for-service, and administrative services arrangements.

*Capitated risk* – Revenues from capitated risk arrangements are based on a per-member-per-month fee for eligible members enrolled in the health plans and are earned over the period in which the member is entitled to service. The Company adjusts its revenue for retroactive membership additions, terminations and other changes when such adjustments are identified, with the exception of retroactivity that can be reasonably estimated. Any fees received prior to the period the eligible members are entitled to service are recorded as deferred revenue. Under capitated risk arrangements, the Company assumes the financial obligation for the cost of healthcare services provided to eligible members covered by its healthcare management programs and records capitated risk fees gross of the related medical claims expense.

*Fee-for-service* – Revenues from fee-for-service, or cost-plus, arrangements are based on a per-claim fee for covered healthcare services performed by the Company's contracted network of providers, calculated as either a fixed percentage mark-up of negotiated network rates or a fixed rate per medical procedure. Revenues are recorded as services are rendered. This amount is based in part on estimates, including estimated revenue earned but not yet billed to the health plans. For medical services authorized under the Company's medical benefit management programs and performed by its contracted providers, fees are recorded as managed care revenue gross of the related medical claims expense. For medical services not covered under the Company's medical benefits management program but paid to its provider network, the Company acts as an agent processing claims payments under its health plans' provider contracts. For these services, the Company recognizes managed care revenue net of the associated medical claims expense.

*Administrative services* – Revenues from administrative services arrangements include fees based on a per-member-per-month fee for eligible members, fees based on the volume of transactions, fixed fees or performance-based arrangements. Fees based on eligible members are earned over the period in which the member is entitled to service. The Company adjusts its revenue for retroactive membership additions, terminations and other changes when such adjustments are identified, with the exception of retroactivity that can be reasonably estimated. Fees based on the volume of transactions are earned as services are rendered. Revenues from fixed fee contracts are recognized ratably over the duration of the contract. Any fees received prior to the period the eligible members are entitled to service or before the period in which services are rendered are recorded as deferred revenue. Performance based fees are recognized when the associated performance target has been or is probable to be achieved.

Many of our contracts contain terms whereby we make certain financial and performance guarantees, including achievement of minimum cost savings targets, penalties in the event the Company's services negatively impact specific utilization targets, and/or various other service level guarantees. In addition, certain arrangements contain provisions that require the Company to share with the customer the costs or profits of the program in the event medical claims experience is above or below certain specified targets and/or there are changes to plan benefit design as set forth in the respective contract. Customers may be entitled to payment to satisfy the financial or service guarantees. Actual performance is compared to the guarantee for each measure throughout the period and estimates are recorded as an offset to revenues if we determine our performance against the guarantee indicates a potential liability. Estimates are adjusted to actual as experience develops and the corresponding obligation, if any, becomes known.

**Concentration risks**

Financial instruments that potentially subject the Company to concentration of credit risks consist of cash, cash equivalents, restricted cash, accounts receivable, and other receivable.

A significant portion of the Company's revenue is derived from contracts with a limited number of health plans. For the years ended December 31, 2017 and 2016, approximately 47% and 55%, respectively, of consolidated revenue was derived from two health plans and their affiliates. As of December 31, 2017 and 2016, outstanding accounts receivable from two health plans and their affiliates represented approximately 64% and 63%, respectively, of total accounts receivable. The loss of a health plan, significant declines in services provided to health plans or significant declines within the healthcare industry could have a material adverse impact on our business and operating results.

**Equity-based compensation**

CCN Group has established an equity incentive compensation plan (CCN Group Plan) for eviCore's employees and directors. As CCN Group is organized as a partnership for income tax purposes, the equity incentive awards that it issues are structured as "profits interests." A profits interest award entitles the recipient to a non-voting interest in future equity appreciation of CCN Group which exceeds a specified distribution hurdle as defined in the underlying award agreement. A profits interest award may only be exercised by the award holder as the result of a liquidity event at CCN Group, such as an initial public offering or change in control of the CCN Group's principal investor below a specified ownership percentage of voting units.

Under the equity incentive compensation plan, CCN Group measures compensation expense for profits interest awards based on the grant date fair value of the awards. A Black-Scholes or lattice, such as a Monte Carlo simulation, option pricing model is used to estimate the fair value of the profits interest awards, depending primarily upon whether the terms of the underlying award contain service, performance, and/or market vesting conditions. Compensation expense for profits interest awards is recognized using the straight-line attribution method over the requisite service period defined in the terms of the underlying agreement, unless the award contains a performance and/or market condition in which case the Company records compensation expense using the straight-line attribution method over the requisite service period when achievement of the related performance and/or market criteria is considered probable to occur. Compensation expense is adjusted to reflect actual vesting and forfeiture experience and the outcome of awards with service or performance conditions through the requisite service period.

**Income taxes**

The Company is comprised of several legal subsidiary entities that are consolidated for financial statement reporting purposes but may or may not file combined income tax returns based on federal and state tax regulations. Subsidiaries that are structured as corporations file separate federal and state income tax returns.

eviCore and its consolidated subsidiaries consist of both limited liability companies and corporations. Some of the limited liability companies are treated as partnerships for federal and state income tax purposes. As such, these entities do not directly pay income tax. The taxable income or loss for these entities, which may vary substantially from the net income or loss reported in the statement of operations, is allocated to the members of each entity based on the operating agreements and included in the members' federal and state income tax returns. As such, no provision or liability for federal or state income tax has been provided in the accompanying consolidated financial statements related to the limited liability companies that are treated as tax partnerships.

Provisions for current income tax liabilities are calculated and accrued on income and expense amounts expected to be included in the separate income tax returns of the corporate subsidiaries for the current year. Income taxes reported in earnings also include deferred income tax provisions. Deferred income taxes are calculated under the asset and liability method. Deferred income tax assets and liabilities are computed on differences between the financial statement basis and tax basis of assets and liabilities at the enacted tax rates.

Liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if, based on the weight of available evidence, it is more likely than not that the position will be sustained on examination. The second step requires us to estimate and measure the tax impact as the largest amount that is more than 50% likely of being realized upon ultimate settlement with a taxing authority. It is inherently difficult and subjective to estimate such amounts, as this may require us to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a periodic basis. This evaluation is based on factors including, but not limited to, current year tax positions, expiration of statutes of limitations, litigation, legislative activity, or other changes in facts and circumstances. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in that period. Estimated interest and penalties related to uncertain tax positions are generally included as a component of income tax expense in the consolidated statements of income.

With few exceptions, the various entities are no longer subject to income tax examination by the U.S. federal, state or local authorities for years prior to 2013. Income tax returns are currently under examination by tax authorities in two separate state jurisdictions for the years 2013 through 2015.

**Comprehensive income or loss**

Comprehensive income consists of two components: net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are recorded as an element of member's equity but are excluded from net income. The Company has no components of other comprehensive income, thus net income is equal to comprehensive income.

**Fair value of financial instruments**

For reported balances that are required to be measured at fair value, we determine fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the asset's principal market, or in the absence of a principal market, the most advantageous market for the asset or liability in an orderly transaction between market participants. There are three main approaches to measuring the fair value of assets and liabilities: (1) the market approach, (2) the income approach and (3) the cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future income amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts of income. The cost approach is based on the amount that would currently be required to replace an asset.

The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

*Level 1* - inputs are unadjusted quoted prices for identical assets or liabilities in active markets;

*Level 2* - inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g. interest rates or yield curves), and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

*Level 3* - inputs that are unobservable in which little or no market data exits, therefore requiring an entity to develop its own assumptions that market participants would use in pricing the asset or liability based on the best available information.

**Recent accounting pronouncements**

In May 2017, the FASB issued ASU 2017-09 *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* containing updated guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance is effective for annual periods beginning after December 15, 2017 with prospective application. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment containing new guidance for entities that removes the second step of the two-step test for goodwill impairment. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This new guidance does not amend the option qualitative assessment of goodwill impairment. We early adopted this new guidance effective January 1, 2017. The adoption of this guidance has been reflected in the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business containing new guidance to assist reporting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This new guidance does not amend the optional qualitative assessment of goodwill impairment. We early adopted this new guidance effective January 1, 2017. The adoption of this guidance has been reflected in the Company's consolidated financial statements.

In August and November 2016, the FASB issued ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash* related to the presentation and classification of changes in restricted cash in the statement of cash flows where diversity in practice exists. The guidance is effective for annual periods beginning after December 15, 2017 on a retrospective basis. We have substantially completed our review of this standard and do not expect a significant impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 *Classification of Certain Cash Payments and Cash Receipts* related to the presentation and classification of certain transactions in the statement of cash flows where diversity in practice exists. The guidance is effective for annual periods beginning after December 15, 2017. We have substantially completed our review of this standard and do not expect a significant impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-2 *Leases (Topic 842)* containing new guidance on the recognition of leases. The guidance requires lessees to recognize assets and liabilities for all leases, both capital and operating, with lease terms more than 12 months. The guidance is effective for annual periods beginning on or after December 15, 2018, with modified retrospective presentation required. While the Company has not completed its assessment, it is expected the adoption of the new guidance could result in a material impact to the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments*. This guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, with separate presentation of the portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the requisition date. The adoption of this guidance has been reflected in the Company's consolidated financial statements as of January 1, 2017.

In August 2014, the FASB issued ASU 2014-15 *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* which requires management to assess a company's ability to continue as a going concern and provide related footnote disclosures when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The adoption of this guidance has been reflected in the Company's consolidated financial statements as of January 1, 2017.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance, including subsequent amendments and clarifications, replaces existing industry-specific guidance and provides a single, comprehensive revenue recognition model for all contracts with customers based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration. The guidance also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual periods beginning on or after December 15, 2017 and we expect to use the modified retrospective transition method for adoption. We are still finalizing our evaluation but do not expect the adoption of this guidance to have a material impact on the recognition of revenue for any period.

## 3. Acquisitions and divestiture

*Express Scripts Holding Company*

On December 15, 2017, Express Scripts acquired, through a series of mergers, 100% of the outstanding ownership interests of CCN Group, representing a change in control of the consolidated group. At closing, Express Scripts, through its wholly-owned subsidiaries, contributed capital of $802,064 to the Company, which together with $100,327 in cash on hand was used to extinguish all outstanding credit facilities (see Note 10 – Notes payable).

The Company incurred $54,673 of transaction-related expenses during the year ended December 31, 2017 in connection with the transaction, which is included in the accompanying consolidated statement of operations.

*QPID Health, Inc.*

On February 12, 2016, the Company, through its wholly-owned subsidiaries, acquired 100% of the outstanding stock of QPID Health, Inc. (QPID). QPID helps providers achieve their care quality and cost reduction goals with sophisticated analytical software that generates actionable information and clinical insights from patient records.

Consideration received by stockholders of QPID was $64,204, comprised of $2,556 in rollover equity in CCN Group and $61,648 in total cash. Total cash consideration is payable in installments, with $49,923 paid at closing, $5,000 paid in August 2016 at the six month anniversary of closing, and $5,000 paid in April 2017 at the twelve month anniversary of closing along with the release of $1,725 in cash held in escrow as of December 31, 2016. Total consideration was funded via a combination of issuing unsecured notes, rollover equity and warrants, and cash on hand.

The QPID acquisition also provides for up to $25,000 of contingent consideration, consisting of two earn-out opportunities: one related to the achievement of cost synergies and one related to the achievement of revenue growth. Both opportunities are measured annually against targets established in the underlying stock purchase agreement, using a March 31 annual measurement period. The earn-out opportunities relate to synergies and growth achieved by March 31, 2017 and 2018, and payment of the contingent consideration would be made within 60 days of each of those two respective measurement dates. The contingent consideration arrangement was determined to have a total fair value of $846 as of the acquisition date. As a result, the fair value of the total consideration transferred, including estimated fair value of contingent consideration, was $65,050.

The estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition are as follows:

| | | |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ | 136 |
| Accounts receivable | | 118 |
| Prepaid expenses and other assets | | 217 |
| Property and equipment | | 408 |
| Computer software | | 22,500 |
| Goodwill | | 44,263 |
| Total assets | | 67,642 |
| Liabilities: | | |
| Accounts payable and accrued liabilities | | 2,311 |
| Deferred income tax liabilities | | 281 |
| Total liabilities | | 2,592 |
| Fair value of net assets acquired | $ | 65,050 |

The goodwill recognized is comprised of expected synergies from the combined software development capabilities of QPID and the Company and intangible assets that do not qualify for separate recognition such as the acquired trained workforce. None of the goodwill recognized in this transaction is deductible for income tax purposes.

The Company incurred $865 of transaction-related expenses during the year ended December 31, 2016 in connection with the transaction, which is included in the accompanying consolidated statement of operations.

*CareNext Post-Acute, LLC*

In March 2017, the Company sold substantially all of the assets and transferred all of the liabilities of its wholly-owned subsidiary CareNext Post-Acute, LLC (“CareNext”) to its former management owners. The Company recorded a $677 loss on disposal of the business, which is recorded as transaction-related expenses in the accompanying consolidated statements of operations.

## 4. Fair value measurements

The Company has certain assets and liabilities that are required to be measured at fair value on a recurring basis. The fair market value of financial instruments may not be representative of the actual gains or losses that will be recorded when these instruments mature or are called or presented for early redemption. Any changes in the fair value measurement are reflected as income or expense in the consolidated statement of operations.

The carrying value of certain of our financial instruments, including cash and cash equivalents, accounts and other receivable, medical claims payable, and accounts payable and accrued liabilities, approximate their fair value because of the short-term nature of those accounts.

The fair value of our privately-placed credit facilities are determined based on quoted prices which reflect fluctuations in current interest rates, the trends in market yields of debt instruments with similar credit ratings, general economic conditions and other quantitative and qualitative factors. The Company estimates that carrying value approximates the fair value of long-term debt.

The fair value of contingent consideration is determined using Level 3 inputs from the fair value hierarchy and reflects the fair value of potential future payments related to the QPID acquisition, estimated based on probabilities of projected savings and cost synergies and related payout, projected payment dates, and discount rates. The Company used a probability weighted discounted cash flow method to arrive at the fair value of contingent consideration. Changes in the probabilities of payment and/or discount rates may result in a change in the fair value measurement.

The table below sets forth a summary of changes in the fair value of the Company's Level 3 contingent consideration for the years ended December 31:

| | **2017** | **2016** |
|---|---|---|
| Balance at January 1 | $ 846 | $ - |
| Acquisition of QPID (Note 3) | - | 846 |
| Changes in fair value | 13,791 | - |
| Payments | - | - |
| Balance at December 31 | $ 14,637 | $ 846 |

## 5. Property and equipment

Major classifications of property and equipment at December 31 consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Equipment, furniture and fixtures, including assets acquired under capital leases ($17,080 and $17,080, respectively) | $ 30,588 | $ 27,215 |
| Leasehold improvements | 6,331 | 5,285 |
| Airplane | - | 7,062 |
| | 36,919 | 39,562 |
| Less: Accumulated depreciation, including amounts applicable to assets acquired under capital leases ($7,296 and $5,312, respectively) | (16,391) | (10,981) |
| | $ 20,528 | $ 28,581 |

Depreciation and amortization expense related to property and equipment totaled $6,978 and $6,431 for the years ended December 31, 2017 and 2016, respectively.

## 6. Computer software

Computer software includes acquired (through business combinations), purchased, and internally developed software as of December 31:

| | 2017 | 2016 |
|---|---|---|
| Computer software, including assets acquired under capital leases ($8,076 and $7,055, respectively) | 113,200 | 94,704 |
| Less: Accumulated amortization, including amounts applicable to assets acquired under capital leases ($5,908 and $4,339, respectively) | (65,312) | (43,670) |
| | $ 47,888 | $ 51,034 |

Amortization expense related to computer software totaled $21,642 and $22,546 for the years ended December 31, 2017 and 2016, respectively.

The table below reflects expected amortization for computer software for the years ended December 31:

| | |
|---|---|
| 2018 | 20,762 |
| 2019 | 12,957 |
| 2020 | 7,884 |
| 2021 | 5,763 |
| 2022 | 176 |
| Thereafter | 346 |
| | $ 47,888 |

## 7. Intangible assets

There were no intangible assets with indefinite lives as of December 31, 2017 and 2016. Intangible assets with definite lives are summarized below:

| | **Estimated Useful Life (years)** | **December 31, 2017 Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Amount** |
|---|---|---|---|---|
| Customer relationships | 15 | 594,486 | 149,148 | 445,338 |
| Trade names | 2–15 | 112,340 | 112,340 | - |
| Provider networks | 5 | 7,167 | 4,870 | 2,297 |
| Noncompete agreements | 3 | 1,870 | 1,728 | 142 |
| Proprietary business policies | 3–5 | 1,460 | 1,274 | 186 |
| Total definite-lived intangible assets | | 717,323 | 269,360 | 447,963 |

| | **Estimated Useful Life (years)** | **December 31, 2016 Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Amount** |
|---|---|---|---|---|
| Customer relationships | 15 | 596,040 | 106,801 | 489,239 |
| Trade names | 2–15 | 112,900 | 33,542 | 79,358 |
| Provider networks | 5 | 7,167 | 3,436 | 3,731 |
| Noncompete agreements | 3 | 2,200 | 1,903 | 297 |
| Proprietary business policies | 3–5 | 1,460 | 1,034 | 426 |
| Total definite-lived intangible assets | | 719,767 | 146,716 | 573,051 |

Amortization expense related to definite-lived intangible assets was $52,313 and $63,077 for the years ended December 31, 2017 and 2016, respectively.

The acquisition of CCN Group by Express Scripts (see Note 3 – Acquisitions and divestiture) represented a triggering event which required management to perform an impairment assessment of the definite-lived intangible assets held by eviCore as of the date of the acquisition. The assessment indicated the carrying value of the Company's trade name exceeded its fair value. As a result, the Company recognized an impairment charge of $72,774 during the year ended December 31, 2017, which is recorded as a component of amortization expense in the accompanying consolidated statement of operations.

The table below reflects expected amortization for definite-lived intangible assets for the year ended December 31:

| | | |
|---|---|---|
| 2018 | | 44,417 |
| 2019 | | 42,559 |
| 2020 | | 39,922 |
| 2021 | | 39,271 |
| 2022 | | 39,153 |
| Thereafter | | 242,641 |
| | $ | 447,963 |

## 8. Goodwill

Changes in the carrying amount of goodwill for the years ended December 31 are summarized below:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Balance at January 1 | $ | 711,705 | $ | 667,442 |
| Acquisition of QPID (Note 3) | | - | | 44,263 |
| Balance at December 31 | $ | 711,705 | $ | 711,705 |

There was no accumulated impairment related to goodwill as of any period presented.

## 9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following as of December 31:

| | 2017 | 2016 |
|---|---|---|
| Accounts payable | $ 4,977 | $ 5,380 |
| Income taxes payable | 1,825 | 3,191 |
| Gain share payable to health plans | 29,012 | 7,780 |
| Employee compensation and related benefits | 46,823 | 33,909 |
| Accrued settlement costs (Note 15) | 1,500 | 55,500 |
| Contingent consideration | 14,637 | 846 |
| Other accruals | 9,642 | 15,117 |
| | $ 108,416 | $ 121,723 |

## 10. Notes payable

Notes payable consisted of the following as of December 31:

| | 2017 | 2016 |
|---|---|---|
| 2014 Amended Credit Facility term loan, maturing March 5, 2021, bearing interest at one month LIBOR (1.0% floor) plus borrowing margin (interest rate of 5.50% in effect as of December 31, 2016) | $ - | $ 851,848 |
| 2014 Amended Credit Facility revolving line of credit, maturing March 7, 2019, bearing interest at one month LIBOR plus borrowing margin (interest rate of 5.05% in effect at December 31, 2016) | - | 48,800 |
| 2016 Unsecured Notes, maturing February 12, 2022, bearing interest at a fixed rate of 13.00% (effective rate of 16.66% as of December 31, 2016) | - | 40,000 |
| Aircraft Credit Facility, maturing June 1, 2019, bearing interest at one month LIBOR plus borrowing margin of 2.60% (interest rate of 3.22% in effect at December 31, 2016) | - | 3,989 |
| | - | 944,637 |
| Less: current installments | - | (9,349) |
| Less: unamortized deferred financing costs | - | (18,357) |
| Less: unamortized original issue discount | - | (7,647) |
| | $ - | $ 909,284 |

On March 7, 2014, the Company entered into a secured credit facility with certain lending institutions that provided a $315,000 amortizing seven-year first lien term loan and a $75,000 revolving line of credit (collectively, the 2014 Credit Facility). On December 1, 2014, the Company amended the 2014 Credit Facility to provide for an incremental $570,000 first lien term loan and $35,000 additional borrowing capacity under the revolving line of credit (collectively, the 2014 Amended Credit Facility). The tenor, interest rate and substantially all other terms of the 2014 Credit Facility were not modified by the amendment. On May 25, 2017, the Company amended the 2014 Amended Credit Facility (collectively, the 2017 Amended Credit Facility) to provide for a decrease in the applicable borrowing margin for term loans to 3.00% for base rate loans and 4.00% for Eurocurrency rate loans. A loss on extinguishment of $730 was recorded as a component of interest expense in the consolidated statement of operations as a result of the refinancing. The tenor and substantially all other terms of the 2014 Amended Credit Facility were not modified by the amendment.

On December 15, 2017, in connection with the acquisition of CCN Group by Express Scripts (see Note 3 – Acquisitions and divestiture), the remaining principal balance of $857,990 under the 2017 Amended Credit Facility was repaid and all existing obligations were irrevocably released at termination of the facility. Unamortized deferred financing costs of $14,112 were written off related to the debt extinguishment and are included as a component of interest expense in the consolidated statement of operations.

The Company had the option to borrow under the 2014 Amended Credit Facility in base rate or Eurocurrency rate loans at its election. Interest was payable monthly or quarterly, depending upon tenor, at a variable annual interest rate equal to (i) in the case of base rate loans, the higher of (with a 2.00% floor for term loans) the prime rate, one-half of one percent in excess of the overnight "federal funds" rate, or the Eurocurrency rate for one month plus 1.00% plus a borrowing margin ranging from 3.00% to 3.50%, or (ii) in the case of Eurocurrency rate loans based on LIBOR (with a 1.00% floor for term loans) plus a borrowing margin ranging from 4.00% to 4.50%. The borrowing margin for the revolving line of credit was adjustable based on the Company's consolidated first lien leverage ratio, defined as net first lien debt (total first lien debt, less unrestricted cash and cash equivalents) divided by adjusted earnings before interest, income taxes, depreciation and amortization. The borrowings outstanding during the years ending December 31, 2017 and 2016 under the 2014 Amended Credit Facility were maintained as Eurocurrency loans. The loans may be prepaid, at the Company's discretion, at any time without premium or penalty. The 2014 Amended Credit Facility first lien term loan required quarterly mandatory principal payments of $2,219, as well as mandatory annual prepayments contingent upon excess cash flow calculations defined in the underlying credit agreement, commencing December 31, 2014 with the balance due at maturity on March 5, 2021.

In 2014, in conjunction with the purchase of an aircraft, the Company entered into a credit facility with a financial institution with an initial principal amount of $5,175 (the Aircraft

Credit Facility). The loan was collateralized by an Aircraft Security Agreement, and required monthly principal payments of $39 with the balance due at maturity on June 1, 2019. On November 21, 2017, the remaining principal balance of $3,568 under the Aircraft Credit Facility was repaid in full and all corresponding security interests were released on extinguishment of the note.

On February 12, 2016, in conjunction with the acquisition of QPID (see Note 3 – Acquisitions and divestiture), the Company entered into unsecured note purchase agreements with certain principal investors of CCN Group that provided six-year, non-amortizing unsecured notes of $40,000 (the 2016 Unsecured Notes). The 2016 Unsecured Notes required interest to be paid quarterly at a fixed interest rate of 13.00%, with the full principal balance due at maturity on February 12, 2022. The notes may be prepaid, at the Company's discretion, without penalty or premium but required a minimum interest payment amount if redeemed prior to February 12, 2018. The 2016 Unsecured Notes were issued at a discount of $8,776, which represented the fair value of the equity warrants in CCN Group issued to the principal investors as part of the transaction (see Note 12 – Member's equity). On December 15, 2017, in connection with the acquisition of CCN Group by Express Scripts (see Note 3 – Acquisitions and divestiture), the remaining principal balance of $40,000 under the 2016 Unsecured Notes was repaid and all existing obligations were irrevocably released at termination of the facility. The unamortized original issue discount of $6,221 was written off related to the debt extinguishment and is included as a component of interest expense in the consolidated statement of operations.

The 2014 Amended Credit Facility and 2016 Unsecured Note contained certain affirmative and negative covenants including certain reporting requirements and other covenants that limited or restricted the incurrence of indebtedness, dividends and other payments, transactions with affiliates, and certain defined investments. The 2014 Amended Credit Facility also included a first lien leverage ratio negative financial covenant that was effective when the Company's borrowings under the revolving line of credit exceeded 25% of the total capacity of the revolving line of credit. As of December 15, 2017 (date of extinguishment) and December 31, 2016, the Company was subject to and compliant with the first lien leverage ratio financial covenant. The 2014 Amended Credit Facility was collateralized by substantially all of the assets of the Company and was guaranteed by CCN Intermediate Holdings.

Under the terms of certain agreements with five health plans and one U.S. federal agency, the Company is required to maintain irrevocable letters of credit totaling $56,127 as of December 31, 2017 and 2016 to support the Company's performance under the contracts. No amounts have been drawn against the letters of credit as of December 31, 2017 or 2016. One of the letters of credit is collateralized by a restricted cash account of $832 as of December 31, 2017 and 2016. As the letters of credit renew annually, the restricted cash account is presented as a component of current assets in the accompanying consolidated balance sheets.

Included in the contractual requirements described above, the Company had $55,295 of irrevocable letters of credit issued under the 2017 Amended Credit Facility revolving line of credit as of December 31, 2016, which were transferred under a new bi-lateral credit facility established by Express Scripts upon termination of the 2017 Amended Credit Facility. While outstanding, the letters of credit reduced the available borrowing capacity under the 2017 Amended Credit Facility revolving line of credit.

## 11. Leases

At December 31, 2017 and 2016 capital lease obligations consisted of the following:

| | **2017** | **2016** |
|---|---|---|
| Financing of certain software and equipment in various monthly installments through January 2020; interest rates in effect from 2.00% to 4.00%. | $ 10,425 | $ 17,796 |
| Less: Current maturities | (7,985) | (8,812) |
| | $ 2,440 | $ 8,984 |

The following is a schedule of future minimum payments under the above capital leases as of December 31:

| | |
|---|---|
| 2018 | 8,041 |
| 2019 | 2,231 |
| 2020 | 295 |
| | 10,567 |
| Less: Interest portion | (142) |
| | $ 10,425 |

The Company conducts certain operations from facilities that are under operating leases that expire at varying intervals through 2022. Consolidated facility rent expense was $7,794 and $7,257 for the years ended December 31, 2017 and 2016, respectively. The

Company also has entered into certain operating leases for equipment and computer software that expire at varying intervals through 2022.

The following is a schedule of future minimum rental payments under these operating leases as of December 31, 2017:

| | | |
|---|---|---|
| 2018 | | 7,236 |
| 2019 | | 7,527 |
| 2020 | | 7,433 |
| 2021 | | 4,852 |
| 2022 | | 2,080 |
| Thereafter | | 6,220 |
| | $ | 35,348 |

## 12. Member's equity

### Member's interest

The Company's Limited Liability Company Operating Agreement, as amended December 1, 2011, governs the rights of the Company's owner (Member). Ownership rights are referred to as "Interests."

### Distributions

The Company periodically transfers funds to CCN Immediate Holdings, for further distribution to CCN Group and its owners), in the form of a distribution in the normal course of business, and these periodic distributions are treated as equity transactions between the Company and its owner. The Company paid distributions of $5,150 and $1,900 during the years ended December 31, 2017 and 2016 respectively.

### Warrants

In February 2016, in conjunction with the issuance of the 2016 Unsecured Notes (see Note 10 – Notes payable), equity warrants in CCN Group were issued with a fair value of $8,776 as of the date of the QPID transaction. The warrants represent non-voting units of CCN Group, which entitle the unit holders to a 1% non-diluted interest in the proceeds upon consummation of a liquidity event of CCN Group, such as an initial public offering or change in control of CCN Group's principal investor. On December 15, 2017, the equity warrants were repurchased from their unit holders by Express Scripts in connection with its acquisition of CCN Group (see Note 3 – Acquisitions and divestiture)

**Equity-based awards**

*CCN Group Plan*

On January 5, 2015, the Board of Directors of CCN Group approved the CareCore National Group, LLC Equity Incentive Plan (the CCN Group Plan). The CCN Group Plan provides for the issuance of up to 99,477 Class C non-voting units in CCN Group as profits interest awards to its employees and directors. Under the CCN Group Plan, the Company may issue profits interest awards containing service, performance, and market-based vesting conditions as specified in the underlying award agreements. Any forfeited, cancelled, or repurchased Class C units may be re-deposited and made available for future awards at the discretion of the Board of Directors of CCN Group.

The Company's employees and directors are also employees and directors of CCN Group and participate in the CCN Group Plan. The Company does not have a separate equity incentive compensation plan. CCN Group allocates equity compensation expense to the Company for the related employees and directors.

The service-based awards granted under the CCN Group Plan generally contain graded-vesting conditions which generally vest over five years, with 20% vesting upon the first anniversary of the vesting commencement date and $1/20^{th}$ vesting at the end of each full quarter thereafter. The service-based awards also provide for accelerated vesting prior to the completion of the requisite service period upon consummation of a liquidity event of CCN Group, such as an initial public offering or change in control of CCN Group's principal investor below a specified ownership percentage of outstanding voting units.

Performance-based awards generally vest only upon (i) consummation of a liquidity event of CCN Group, such as an initial public offering or change in control of the CCN Group's principal investor below a specified ownership percentage, which also achieves a specified minimum cumulative internal rate of return to the CCN Group's principal investor, or (ii) consummation of a liquidity event of CCN Group within a specified time period that also achieves a minimum specified CCN Group enterprise value. Achievement of these conditions, and therefore recognition of associated compensation expense, is not considered probable until the date a liquidity event of CCN Group occurs.

Post-acute care (PAC) performance-based awards issued under the CCN Group Plan vest upon the achievement of EBITDA targets, defined in the individual award agreements, by certain of the Company's wholly-owned subsidiaries. In connection with the CareNext divestiture (see Note 3 – Acquisition and divestiture), in March 2017 the terms of certain PAC performance-based awards were modified to vest only upon execution of a specific new customer contract within a specified time period, which was achieved during the year ended December 31, 2017. Based upon historical performance and expectations of future performance of these subsidiaries, the Company determined it was not probable that the remaining unmodified PAC performance-based awards will vest and therefore no compensation expense has been recognized in the consolidated statements of operations during the years ended December 31, 2017 and 2016.

There is no contractual expiration date associated with the Class C units issued under the Group Plan. The terms of all Class C units, including vesting provisions, have been approved by the Board of Directors of CCN Group.

*Express Scripts*

The acquisition of CCN Group by Express Scripts on December 15, 2017 (see Note 3 – Acquisitions and divestiture) represented a qualifying change in control liquidity event under the terms of the CCN Group Plan and underlying award agreements. As such, accelerated vesting of all service-based awards and vesting of non-PAC performance-based awards occurred at consummation of the transaction. The Company recorded $12,248 and $3,287 of equity-based compensation expense during the years ended December 31, 2017 and 2016, respectively, related to these awards.

In addition, in connection with the Express Scripts acquisition, the CCN Group Plan and individual profit interest unit agreements were amended such that $81,093 of the total transaction proceeds otherwise payable pursuant to the unit agreements be deferred and paid in two equal installments, 50% upon each of the second and third anniversaries of the effective date of the mergers. The arrangements with the Company's employees provide that payments are forfeited if the employee voluntarily terminates prior to the anniversary dates. The deferred consideration payments will be recognized ratably over the period in which post combination services are rendered by employees of the Company. The Company incurred $1,544 of compensation costs during the year ended December 31, 2017, which is recorded as transaction-related expenses in the accompanying consolidated statement of operations.

Certain employees of the Company are eligible to participate in the Express Scripts Holding Company Long-term Incentive Plan (Express Scripts LTIP), under which Express Scripts may issue stock options, stock appreciation rights ("SARs"), restricted stock awards, restricted stock units, performance share awards and other types of awards. No awards were issued to employees of the Company under the Express Scripts LTIP during the year ended December 31, 2017.

*Fair value*

The Company has estimated the fair value of Class C units as of the date of grant, or re-measurement date as it relates to modified awards, by applying the Black-Scholes or Monte Carlo option pricing models. The application of these valuation models requires assumptions that are highly judgmental and sensitive in nature.

We used the following weighted average key assumptions to estimate the fair value and related compensation expense of Class C units granted for the periods presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Expected term (in years) | 1.4 | 3.4 |
| Expected volatility | 54.1% | 50.0% |
| Expected dividend yield | 0.0% | 0.0% |
| Risk-free interest rate | 1.0% | 1.0% |
| Grant date fair value (per unit) | $ 340 | $ 463 |

The following methodologies were applied in developing the assumptions used in determining the fair value of Class C units:

*Expected term* - the period of time over which the awards granted are expected to remain outstanding based on the Company's expectation of a liquidity event of CCN group for each separately vesting tranche of awards.

*Expected volatility* - a measure of the amount by which a price has fluctuated or is expected to fluctuate. The Company uses a leverage-adjusted average volatility of a group of comparable publically-traded companies for the time period equivalent to the expected term.

*Expected dividend yield* - This is the expected distributions by CCN Group to its owners that are not also provided to award holders through anti-dilution or other adjustments to the terms of the original awards.

*Risk-free interest rate* - the published U.S. Treasury rate on a bond-equivalent-yield basis for a time period equivalent to the expected term.

The following table summarizes activity for the year ended December 31, 2017:

| | Units | Weighted-Average Distribution Hurdle |
|---|---|---|
| Outstanding at January 1, 2017 | 91,906 | $ 715,866 |
| Granted/issued | 4,830 | 937,699 |
| Forfeited/cancelled | (33,738) | 677,311 |
| Redeemed | (62,998) | 793,778 |
| Outstanding at December 31, 2017 | - | $ - |
| Vested at December 31, 2017 | - | $ - |

The Class C units forfeited were re-deposited into the total pool of Class C units available to be issued under the CCN Group Plan. In connection with the acquisition of CCN Group by Express Scripts on December 15, 2017 (see Note 3 – Acquisitions and divestiture), all vested Class C units were redeemed and unvested Class C units were cancelled as of that date.

## 13. Income taxes

On December 22, 2017 (the "Enactment Date"), H.R. 1, originally known as the Tax Cuts and Jobs Act, was enacted. The new law (Public Law No. 115-97 hereinafter referred to as the "Tax Act") includes significant changes to the U.S. corporate income tax system including, but not limited to, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. The majority of the provisions in the Tax Act are effective January 1, 2018.

We have recorded a provisional tax benefit, as a component of the deferred tax provision, for the impact of the Tax Act of approximately $37,461 during the year ended December 31, 2017. This amount is primarily comprised of the provisional re-measurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%. As we complete our analysis of the Tax Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other authoritative standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may impact our provision for income taxes in the period in which the adjustments are made.

The provision for the years ended December 31, 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| **Current** | | |
| Federal | $ 31,963 | $ 26,477 |
| State | 10,388 | 9,157 |
| | 42,351 | 35,634 |
| **Deferred** | | |
| Federal | (48,033) | (14,774) |
| State | (9,297) | (2,826) |
| | (57,330) | (17,600) |
| (Benefit) provision for income taxes | $ (14,979) | $ 18,034 |

The provision for income taxes for the years ended December 31, 2017 and 2016 differs from the amount obtained by applying the U.S. federal income tax rate to income before income taxes. Differences arise, in part, due to the Company's structure involving a mix of entities that are taxed as corporations and partnerships. Income earned by corporate entities is taxed at the corporate level, whereas income earned in partnerships is allocated and included in the owners' federal and state income tax returns. As such, no provision or liability for federal or state income tax has been provided in the accompanying consolidated financial statements for operations earned by entities taxed as partnerships.

The following table reconciles the provision for income taxes to the provision determined using the statutory federal income tax rate for the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Statutory federal income tax provision | $ (19,849) | $ 5,858 |
| State income taxes, net of federal benefit | 669 | 4,108 |
| Net effect of pass-thru entities | 31,332 | 7,776 |
| Effect of federal rate change | (37,461) | - |
| Federal deferred true-ups | 117 | (426) |
| Change in valuation allowance | - | 50 |
| Equity-based compensation | 2,725 | 267 |
| Contingent consideration | 4,820 | - |
| Transaction costs | 2,006 | 247 |
| Other, net | 662 | 154 |
| Total (benefit) provision for income taxes | $ (14,979) | $ 18,034 |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of deferred tax assets and liabilities are as follows as of December 31:

| | 2017 | 2016 |
|---|---|---|
| **Deferred tax assets** | | |
| Accruals and reserves not currently deductible | $ 2,880 | $ 3,346 |
| NOLs and credits | 10,335 | 11,789 |
| Deferred revenue | 67 | 302 |
| Deferred costs | 569 | 889 |
| State income taxes | 3,111 | 8,422 |
| Deferred tax assets | 16,962 | 24,748 |
| Less: Valuation allowances | (1,014) | (5,010) |
| Total deferred tax assets | 15,948 | 19,738 |
| **Deferred tax liabilities** | | |
| Depreciation and amortization, net | (86,615) | (147,553) |
| Prepaid expenses | (251) | (404) |
| Other, net | (29) | (57) |
| Total deferred tax liabilities | (86,895) | (148,014) |
| Net deferred tax liabilities | $ (70,947) | $ (128,276) |

Deferred taxes for the year ended December 31, 2017 have been revalued at a federal statutory rate of 21% based on the Tax Act. Deferred taxes for the year ended December 31, 2016 continue to be valued and presented at the enacted federal statutory rate at that time of 35%. Federal net operating loss carry forwards will expire between 2019 and 2033, and state net operating loss carry forwards will expire between 2018 and 2034.

## 14. Defined Contribution Plan

The Company maintains 401(k) Plans that cover substantially all eviCore employees. The Company has made Safe Harbor and matching contributions to the Plans of $4,848 and $5,041 for the years ended December 31, 2017 and 2016, respectively.

## 15. Contingencies

The Company maintains insurance coverage for a broad range of business risks, including managed care policies covering directors and officers and errors and omissions liability. The managed care policies are written on a claims-made basis. The Company also maintains excess liability coverage in an amount that management believes to be reasonable based on size and risk profile of the entity. The Company is responsible for claims within its self-insured retentions, for claims in excess of policy limits and for claims reported after the expiration date of the policies if they are not renewed.

The Company is subject to various inspections, audits, inquiries, investigations and similar actions by third parties, as well as governmental/regulatory authorities responsible for enforcing the laws and regulations to which the Company is subject in the ordinary course of business. These may include actions with respect to labor and employment, provider disputes regarding payment of claims, acts or omissions in utilization review decisions and information requests from government agencies, and potential allegations under the False Claims Act and its qui tam (whistleblower) provisions. Under the federal False Claims Act, private parties have the right to bring qui tam, or "whistleblower," suits against companies that submit false claims to the government. Some states have adopted similar whistleblower and false claims provisions. The Company from time to time receives government inquiries from federal and state agencies regarding compliance with various healthcare laws. Oftentimes, these inspections, audits, investigations and inquiries relate to prior periods. At any point in time, the Company is in varying stages of discussions on these matters. At each reporting date, the Company reviews, including consultation with its outside legal advisors where applicable, the status of inspections, audits, inquiries, investigations, legal claims and legal proceedings and assesses its potential financial exposure.

The Company records accruals for such contingencies to the extent that the Company concludes that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. To the extent the amount of a probable loss is estimable only by reference to a range of equally probable outcomes, and no amount within the range appears to be a better estimate than any other amount, the low end of the range is accrued. These matters are continuously being evaluated and, in many cases, are being contested by the Company and the outcome is not predictable. The inherently unpredictable nature of legal proceedings may be exacerbated by various factors from time to time, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes.

In 2013, the Company received a Civil Investigative Demand from the Assistant United States Attorney for the Southern District of New York (AUSA), seeking information regarding certain practices related to approving a limited number of radiology pre-authorization requests. The Company complied with all information requests and immediately ceased the practice. After completing the review of documents produced by the Company through June 2014, the AUSA ceased contact with the Company on the matter. In 2016, the Company became aware the matter remained unresolved, and a sealed qui tam action under the False Claims Act brought by a whistleblower in U.S. et al., ex. rel. John Miller v. CareCore National, LLC, et al. was filed by the AUSA. On April 20, 2017, the Company and AUSA resolved by agreement the allegations, in which the Company paid $54,561, including associated interest. The payment was partially funded through $40,000 in an escrow account previously established to cover potential contingent liabilities related to the matter during the acquisition of CCN Group by its principal investor in March 2014. The Company has recorded a contingent liability in the consolidated balance sheet as of December 31, 2017 and 2016 of $1,500 and $55,000, respectively, related to the settlement amount and estimated relator’s attorney fees.

Although the Company cannot know the ultimate outcome of the matters described in the preceding paragraphs other than as disclosed, there can be no assurance that the resolution of these matters will not have a material adverse impact on the Company’s consolidated results of operations, financial position or cash flows or and that these matters will be resolved in an amount that would not exceed the amounts previously recorded by the Company. Because of inherent uncertainties related to these matters, the use of estimates, assumptions, judgments and external factors beyond the Company's control, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to any pending inspections, audits, inquiries, investigation, claims and litigation and may revise its estimated exposure upward or downward accordingly, including any related disclosure. Such revision in the estimates of the potential liabilities could have a material impact on the Company's consolidated financial statements.

## 16. Related-party transactions

During the year ended December 31, 2016, the Company paid approximately $7,739 in cash to former shareholders of certain wholly-owned subsidiaries related to windfall income tax benefits received but contractually owed in connection with the Company’s acquisition of the subsidiaries.

In December 2017, the Company sold its ownership interests in an aircraft and a partially-owned subsidiary to a member of executive management. The Company recorded a loss on sale of the assets of $2,454, which is recorded as sales, general, and administrative expenses in the consolidated statement of operations for the year ended December 31, 2017.

## 17. Subsequent events

The Company evaluated subsequent events and transactions for potential recognition in the consolidated financial statements through February 27, 2018, the date the Express Scripts ultimate parent company consolidated financial statements were available for issuance, and for potential disclosure through May 3, 2018, the date the eviCore subsidiary consolidated financial statements were available to be issued.

On February 1, 2018, the Company acquired substantially all of the assets and assumed substantially all of the liabilities of Palladian Health, LLC and subsidiaries, a musculoskeletal care management company, for approximately $24,000 in consideration.