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**Confidential Information Memorandum**

**Revenue Coding & Associates**

***Bridging Coding & Revenue Integrity***

***Prepared by:***

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Updated 5/6/2021

**Confidential Information Memorandum**

**Revenue Coding & Associates**

This Confidential Information Memorandum (the “Memorandum”) is being provided in connection with a potential transaction involving Revenue Coding & Associates, hereinafter referred to as the “Company.” The Memorandum has been prepared by Kruse Acquisitions, LLC. It is being released to qualified parties who have expressed an interest in a transaction involving the Company and is subject to the Confidential Agreement entered into by its recipient.

This Memorandum does not purport to be all-inclusive or contain all information that a prospective acquirer, investor or partner may desire in evaluating a transaction involving the Company. In all cases, interested parties should conduct their own investigation and analysis of the Company and the data set forth in this Memorandum. Kruse Acquisitions, LLC, has not independently verified any of the information, including the financial projections contained herein; and neither Kruse Acquisitions, LLC, or the Company, make any representations or warranties as to the accuracy or completeness of this Memorandum and neither shall have any liability for any representations (expressed or implied) contained in, or for any omissions from, this Memorandum or any other written or oral communications transmitted to the recipient in the course of its valuation of the Company. The only information that will have any legal effect will be that specifically represented in a definitive agreement.

The Company reserves the right to negotiate with one or more interested parties at any time without prior notice to you or other interested parties. It also reserves the right to terminate, at any time, further participation in the investigation and proposal process by any party and to modify other procedures without assigning any reasons thereof.

By accepting the Memorandum you acknowledge that: (1) the information will be used by you solely for the purpose of evaluating a transaction involving the Company; (2) you will not reproduce the Memorandum in whole or in part and will not distribute all or any portion of the Memorandum to any person other than their employees or representatives who have a need to know such information for the purpose set forth in (1) above and who are informed by you of the confidential nature of such information and agree to be bound by the Confidentiality Agreement; and (3) if you do not wish to pursue a transaction involving the Company you will return the Memorandum to Kruse Acquisitions, LLC together with any copies of the Memorandum or other materials relating to the Company which you may have received from Kruse Acquisitions, LLC or the Company.

Kruse Acquisitions, LLC is the exclusive advisor to the Company with respect to the proposed transaction. All inquiries regarding the Company should be made through Kruse Acquisitions, LLC and the Company should not be contacted or approached directly. For further information, please contact Kruse Acquisitions, LLC.

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# EXECUTIVE SUMMARY

## COMPANY OVERVIEW

Headquartered in San Francisco, California, Sandy Walker, Inc. DBA Revenue Coding and Associates (“R&C” or “Company”) is a privately owned S Corporation and industry leader of customized health information and revenue cycle consulting services designed to improve data quality, compliantly increase revenues, and reduce/mitigate risks. R&C provides customized revenue integrity solutions for coding and billing integrity including MS-DRG and APR-DRG compliance, clinical documentation improvement, Recovery Audit Contractor (RAC) consulting, ICD-10 readiness, training, auditing and coding support, HCC—Medicare Risk performance improvement and current ICD-9 and CPT coding support. R&C clients include hospitals, health systems, physicians, medical groups, independent physician associations (IPAs) and health insurance plans. R&C’s quality-driven approach allows its clients to receive the best services by the best professionals using the best tools.

R&C is a quality-driven company that utilizes client health and financial information to provide strategic solutions for performance improvement and sustained revenue integrity. R&C’s team of subject matter experts analyze coded and financial data, derive risk and reward potential, and provide results that lead to compliant and enhanced revenue.

Founded by its two owners, Sandy and Tim Walker, R&C enjoys a strong reputation due to their personal service, proven results, and deep industry experience. Through use of their own proprietary database for audit entry, data analysis, and reporting purposes, the R&C team of experts are able to audit efficiently, educate comprehensively, and report reliably. R&C is able to create bonds with their clients through the values and integrity the company continuously upholds. Customers look to R&C to build and maintain revenue integrity bridges that help realize performance improvements.

R&C’s industry is highly fragmented, growing steadily, with strong prospects for continued growth, fueled by increased demand for healthcare services, an aging population, and ever-changing regulatory requirements, especially the looming requirement for healthcare providers to implement ICD-10. The industry suffers, however, from a shortage of skilled personnel and as a result, the solutions provided by R&C are in high demand and opportunities for growth are extensive.

R&C currently employs 13 full-time employees as well as 32 independent contractors and to meet growing demand and opportunities is in the process of expanding to 15 full-time employees and adding significant coding and consulting resources.

## TRANSACTION OVERVIEW

Sandy and Tim Walker each hold 50% of R&C. If the company were to be sold, the co-owner, Sandy Walker, would, at the buyer’s request, continue to provide business and service line development, staff recruitment, subject matter expertise, and intellectual capital. She holds deep and broad industry experience with specialized skills in development and deployment of coding, billing, and documentation software tools.

R&C has experienced very strong growth in recent years and is facing significant additional opportunities for growth from several quarters of their business. To ensure their ability to meet these opportunities, R&C has retained Kruse Acquisitions, LLC to assist them in exploring strategic options and potential partnerships. This Memorandum is being provided, on a highly selective basis, to qualified parties who are believed to have an interest in acquiring the Company and who have executed a Confidentiality Agreement regarding a potential transaction.

Sandy and Tim Walker are enthusiastic about the future prospects of R&C and are looking for a partner with the right combination of skills, resources, personnel and corporate culture to capitalize on their many opportunities for growth. The final structure of a transaction will be determined through discussion and mutual agreement among Sandy and Tim Walker and the party that best meets these objectives.

# INDUSTRY ANALYSIS AND MARKET OVERVIEW

## INDUSTRY OVERVIEW

According to the Centers for Medicare and Medicaid Services (“CMS”), healthcare expenses in the U.S. were roughly $2.2 trillion in 2008 and are expected to grow annually by 6.7% through 2017, or to $4.3 trillion or 19.5% of the GNP. Hospital services, the subset in which R&C primarily operates, is about 30% of the overall market with comparable expectations of 6.4% annualized growth projected. Hospitals include government owned and operated, not-for-profits and for profits, and there are around 4,900 in-patient facilities in the U.S.

Increases in U.S. healthcare costs are expected to continue to rise due to the aging population. According to the U.S. Census Bureau there are approximately 37.9 million Americans aged 65 and older, or 12.6% of the population. That number is expected to rise to 72.1 million by 2030, or to 19.3%. This rise represents the population explosion from post-World War II, an increase in longevity, and an increase in demand for innovative technologies and treatment.

Coupled with this industry growth, there has been extensive government regulation introduced at federal, state and local levels, and specific requirements exist to enable hospitals to operate and to participate in government programs such as Medicare and Medicaid reimbursement. Penalties for failure to comply can be severe and can include criminal, as well as civil sanctions. While there are extensive requirements for hospitals, some of the more relevant include the Fraud and Abuse Laws and the False Claims Act. In order to participate in Medicare programs there are extensive regulatory requirements for compliance and violations, such as making claims for services not provided or misrepresenting services to receive higher payment, can result in severe penalties or even convictions. The Office of Inspector General of the Department of Health and Human Resources, or OIG, is responsible for investigating fraud and abuse activities.

The Medicare Modernization Act of 2003 established the Medicare Recovery Audit Contractor (RAC) program as a demonstration program to identify improper Medicare payments - both overpayments and underpayments. The demonstration was so successful that The Tax Relief and Health Care Act of 2006 made the RAC program permanent and authorized the Centers for Medicare & Medicaid Services (CMS) to expand the program to all 50 states by January 1, 2010. Hospitals are hiring HIM companies including coding companies, to help reduce audit risks prior to RAC audits beginning in their states, as well as to improve documentation and procedures following the audits.

In-patient care under Medicare is also regulated by the prospective payment system (“PPS”) and there are pre-determined amounts that will be paid for services that are approved under a diagnosis-related group, known as a “DRG”, based upon the patient’s treatment and condition. The importance of coding the appropriate diagnosis, and related services, are paramount to the care provider receiving appropriate and entitled compensation.

The American Health Information Management Association (“AHIMA”) defines medical coding as the “transformation of verbal descriptions of diseases, injuries, and procedures into alphanumeric designations.” Medical coding was initially introduced as a way to classify cause of death on death certificates but today the use is much broader, providing the foundation for diagnosis, procedural care, reimbursement, fraud abuse prevention, treatment tracking and administrative planning.

When the federal government introduced the PPS in 1983, primarily for the reimbursement of hospitals and physician claims for the treatment of Medicare patients, the need was generated for accurately capturing the services provided by the care provider to qualify for reimbursement. By the 1990s, however, abuses and fraudulent over-billings were rampant throughout the industry, and the federal government intervened by introducing much more stringent guidelines and compliance regulations. The need for coding and compliance services was born. Since its inception, it has become an industry within an industry, having its own curriculum, degrees and certifications.

Today, upon entering into a care facility, a patient’s condition will be diagnosed and strict standardized codes will be used to identify a patient’s condition into the provider’s system. That diagnosis code provides the basis for determining the protocols for allowable treatment and procedures that will qualify for reimbursement. For the healthcare provider, this rigid reliance on process also helps provide the documentation needed not only to help establish the methods for treatment but also to help mitigate claims that may arise or be levied by a patient that contracted another form of disease at the healthcare provider’s facilities.

With further refinement and use of medical coding in all facets of healthcare, no longer just to qualify for reimbursement, the coded data now forms the basis for an individual’s medical record and is used for the evaluation of treatments and outcomes, for research and education, for facilities management and case-mix, and to improve the overall quality of healthcare. As the industry moves into an era of overall healthcare reform and proposed standardization of medical records, the importance of coding continues to hold promise as the standards by which data will be collected and measured.

According to Susan Garrison, a Director with American College of American Coding Specialists (ASMS), one of the main challenges facing coders today is preparation for the transition to ICD-10. The International Statistical Classification of Diseases and Related Health Problems 10th Revision (ICD-10) is a coding of diseases and signs, symptoms, abnormal findings, complaints, social circumstances and external causes of injury or diseases, as classified by the World Health Organization (WHO). The code set allows more than 155,000 different codes, and permits the tracking of many new diagnoses and procedures. It will be a significant expansion on the 17,000 codes available in ICD-9 which is currently in use, and is to be adopted by October, 2014. The adoption of ICD-10 will serve as a contemporary international standard to allow for better use of the information collected. Previously there has been resistance from health plans and plan payers to use the international codes stringently, since most of their focus has been on reimbursement of claims, and they have had the flexibility to modify, change or omit codes as they saw fit for claims submissions.

Ms. Garrison has stated that, as the industry moves closer to standardizing an automated health record, the need for accurate coding will become increasingly important. Independent coders today are finding that their highest demand is for performing post payment audits, performing coding audits and reviews, providing temporary support during periods of peaks and overages, and to fill in during vacation times.

Coding remains an evolving industry and there are a number of associations that are directly and indirectly focused on its influence in healthcare and healthcare information. The most immediate risk is in the shortage of credentialed personnel but increased salaries and wages are attracting more into the profession. Coding, included as part of a product suite and offered in a bundled solution of other services, is gaining in popularity.

# THE BUSINESS

## HISTORY AND OVERVIEW OF BUSINESS

The genesis of Revenue Coding & Associates dates to October of 2003 when the company was founded originally under the name, Sandy Walker, Inc. Long-term professional relationships and industry exposure allowed the company to successfully offer medical coding and compliance services to industry participants familiar with Ms. Revenue Coding. Clients included health systems, hospitals and independent physician associations.

In 2008, the company changed its name to Revenue Coding and Associates to capitalize on Sandy Walker’s name recognition and to appeal to a broader national client base. In the 10 years since its inception, R&C has experienced steady business growth with great client and staff retention. The majority of their clients are long-term and most of the revenue is generated from recurring accounts. Same store sales have resulted in additional revenue growth from existing clients.

R&C currently employs 13 fulltime staff and 32 independent contractors. The company is in the process of adding two (2) additional fulltime employees. All of their staff, both employee and independent contractors are vetted and competencies assessed prior to becoming part of the R&C team.

In 2007, R&C obtained their largest contract with a 14-hospital health system for which they continue to perform bi-annual coding and billing compliance. In 2008, R&C expanded their customers to include managed care plans; providing Medicare Advantage (HMO) coding consulting services. R&C has serviced two of the largest commercial health insurers in the country. In 2009, R&C added national Recovery Audit Contractor (RAC) readiness consulting services; providing risk and reward analysis, consulting and training services.

In 2012, R&C increased their footprint by obtaining two large health system clients; one, a 28-hospital health system and the other, a five-hospital health system. R&C provides pre-billing and retrospective coding and billing compliance audits for these two clients and anticipates growth in the geographic regions in which these clients are located. (Southeast/National)

In 2012, R&C announced ICD-10 gap analysis services, including auditing, recoding and MS-DRG regrouping hospital data from ICD-9 into ICD-10.

For 2013, R&C expects to extend their services to include medical coding support services. R&C has been approved and retained by the largest managed care provider in the county to provide hospital coding support. R&C expects this service to begin in the summer of 2013 with annual revenue from this client potentially in the millions.

R&C is actively involved in hospital Medicaid coding and billing compliance and is experiencing growth in their California market as Medi-Cal moves to APR-DRG reimbursement methodology. This change in payment from the state’s Medicaid program should increase their volume of service significantly.

R&C anticipates ever-increasing demand for ICD-10 coding support services as the October 2014 ICD-10 implementation deadline nears. Their team is ICD-10 certified and ready to provide ICD-10 coding and auditing support.

## REVENUE CODING & ASSOCIATES SERVICES AND CAPABILITIES

Coding and Billing Compliance Services

1. **MS-DRG and APR-DRG Audits**

R&C specialized client-driven MS-DRG services include focused and random audits. In focused audits, they analyze the client’s coded/billed data prior to review to identify opportunities for revenue improvement, risk mitigation, coder education, and physician documentation improvement. Using this technique, R&C selects the accounts with the greatest potential for coding and MS-DRG and APR-DRG changes. Selection criteria are based on nationally mandated coding guidelines, as well as other indicators including charges, length of stay, admission source, present on admission indicators (POA) and discharge disposition data. Clients may also choose to use a random audit selection methodology.

R&C professional staff also reviews cases for inpatient medical necessity using InterQual criteria. Appropriateness of inpatient status for medical short stay, surgical short stay, and three-day qualifying stays to SNF cases are reviewed. R&C submits detailed recommendations for change, citing official regulatory references. Audit reports are generated in a timely fashion, within 15 business days following completion of the audit process. After audit reconciliation, R&C provides coder, Case Management and physician education as determined by audit results and client preferences.

1. **Hospital Outpatient/APC Audits**

R&C’s hospital outpatient coding and billing integrity auditing services include review of HIM (soft) and point of service (hard) coded data elements. While the term “coding” has long been equated with soft-coding only, R&C has developed, implemented, and focused its comprehensive audit approach on coded data generated from all points of service. R&C successfully provides comprehensive coding audit services that go beyond normal “coding” audit parameters.

R&C reviews the UB-04 and Remittance Advice for each audited account to validate claims submission and payment accuracy. R&C compares the HIM coding abstract, UB-04 and Remittance Advice to verify charge capture, data transfer, claim form logic (payer billing criteria), and claim scrubber efficacy. R&C provides hospital outpatient consulting services that identify trends and patterns, establish baselines, correct root-cause deficiencies, and forecast potential net revenue impact. These specialized, client-driven hospital outpatient consulting services include focused and random audits. R&C hospital outpatient audits have identified revenue improvement opportunities

for all hospital/health system clients. Same store sales involving Emergency Department, Infusion, Chemotherapy and Wound Care services have resulted from on-going coding and billing audits.

At one R&C client, an outpatient/APC revenue improvement opportunity of approximately $1M was identified for Interventional Radiology services.

1. M**edical Necessity/Case Management Services**

Performed by experienced case management professionals, R&C provides both concurrent and retrospective admission screening reviews of inpatient and observation status accounts. The company uses InterQual and other evidence-based screening criteria to determine the appropriate level of care.

For concurrent, real-time case management support, R&C resources are available any time, day or night. Physician advisors are available for second level review of those cases that fail medical necessity screening by our expert case management staff.

For retrospective case management assessments, R&C includes inpatient status review of RAC targeted accounts in its MS-DRG audit services. R&C also provides on-going educational reviews of inpatient and observation cases to ensure that inpatient admission criteria have been met. R&C reviews findings with the client’s case management team and provide education as determined by review outcomes.

HCC Services

1. **Hierarchical Condition Categories (HCC) Risk Management – Physician, Medical Group, IPA, and Health Plan Services**

Since 2007, Medicare’s HCC Risk Adjustment payment model has based health plan payment entirely on the reporting of designated ICD-9-CM codes and their associated Risk Adjustment Factors (RAF). To achieve optimum HCC results, medical groups, IPAs and health plans rely on Revenue Coding and Associates for a wide range of consulting, training, and coding services that demonstrate compliant payment and sustain performance improvements. R&C’s credentialed HCC coding and documentation experts apply Medicare Advantage Risk-Adjusted guidelines to ensure comprehensive physician documentation, accurate ICD-9-CM data and measurable and compliant revenue improvement. The HCC team understands all aspects of Medicare-Risk methodology and focuses attention on those areas most important to clients.

1. **Coding and Physician Documentation Reviews**

R&C reviews physician and hospital records to verify coding accuracy and validate documentation requirements. The experienced and highly trained HCC staff work with physicians to improve documentation practices, with practice managers to enhance billing procedures, and with coding professionals to increase coding accuracy. R&C reviews are performed on-site or remotely using secure HIPAA compliant technology. The one-on-one or group physician education is provided on-

site, addressing provider specific documentation and coding issues. The goal is to help the provider and health plan receive appropriate reimbursement, while improving patient care and outcomes.

In one HCC audit, the IPA generated the following results

|  |  |
| --- | --- |
| **Members:** | **3,200** |
| **Total Line Items:** | **23,782** |
| **HCC Changes:** | **184** |
| **HCC Change Rate:** | **6%** |
| **Financial Impact:** | **$1,209,067 annualized** |
| **Impact Per Member:** | **$378** |
| **Impact for Line Item:** | **$51** |
| **Return on Investment** | **22%** |

R&C HCC coding, audit and educational services results indicate average client return on investment between 20% to 25%.

1. **RADV Audits and Process Management**

Risk Adjustment Data Validation (RADV) is the process that CMS uses to verify that the diagnosis codes submitted for payment by clients are supported by medical record documentation. The RADV process identifies areas of risk adjustment documentation deficiencies, as well as educational opportunities for physicians and coders. Health plans and providers must select the “one best medical record” to support each HCC identified for validation. R&C helps clients achieve this goal.

1. **Data Mining and Analysis**

Combining data mining software and extensive understanding of the HCC payment model, Revenue Coding-certified HCC professionals drill down into clients’ data and identify those cases with the greatest potential for revenue improvement and Risk Adjustment Data Validation (RADV) risk.

Revenue Coding analyzes physician, hospital, laboratory, and pharmacy data to determine likely sources of coding and documentation improvement opportunities.

ICD-10 Implementation and Training

On October 1, 2014, medical coding in United States health care settings will change from the current system, International Classification of Diseases, 9th Edition, Clinical Modification (ICD-9), to the International Classification of Diseases, 10th Edition, Clinical Modification/Procedure

Coding System (ICD-10). The new, federally mandated version expands the number of codes from 24,000 to 155,000, making it more precise and descriptive, and more accurately describing the diagnoses and inpatient procedures of care delivered.

The transition will require significant business and systems changes throughout the health care industry and will impact all processes and people from finance to compliance to doctors. Hospitals, physicians, and health plans must be ready to implement ICD-10.

R&C consulting services assist clients in developing a strategic plan for an efficient and dependable ICD-10 conversion. R&C provides ICD-10 consulting services that include physician and coder education, data analysis, and financial impact forecasting. R&C has developed a multifaceted approach for ICD-10 training and implementation, using client data and AHIMA approved ICD-10 trainers to provide the following ICD-10 services:

1. **Data Analysis**
* Process current ICD-9-CM coded data through ICD-10 mapping/encoding software
* Identify high volume diagnoses and procedures
* Identify those medical specialties (body systems) for initial I-10 target training
* Perform projected case-mix impact analysis
1. **Physician Education**
* Provide education to designated physicians by specialty
* Provide education to physician office coding staff
* Assist in development of I-10 charge tickets and physician documentation guides
1. **Coder Education**
* Provide anatomy and physiology training
* Provide medical terminology training
* Utilize web-based and on-site ICD-10 coding training protocols
* Develop and implement hospital specific ICD-10 coder certification program
* Develop and implement hospital ICD-10 coding management certification program

Recovery Audit Contractor (RAC) Program Consulting

R&C identifies and quantifies the financial risks posed by the RAC program, focusing on cases with the highest probability of coding, billing, documentation, and case management errors. R&C provides auditing, consulting, training, and appeals support services delivered by experienced RAC experts.

Sandy Walker, President of R&C, provides education sessions nationally for the Healthcare Financial Management Association (HFMA) and the American Health Information Management Association (AHIMA). R&C has provided RAC services to hospitals and health systems since 2007

and has performed RAC readiness assessments at health systems and hospitals nationally. Sandy has also helped develop RAC data mining software used to identify accounts with the greatest potential for RAC risk and potential revenue improvement opportunities.

## CURRENT CLIENTS

R&C’s customers are divided into three categories. 70% of their customers are health systems, 20% are hospitals, and 10% are IPAs/Health Plans. Typically the company is engaged by compliance officers and occasionally by HIM directors but then actually works with the CFO and Revenue cycle team. None of the customer contracts prohibit assignability, and all client relationships are strong, with almost no customer attrition over the past several years. 95% of the company-client work is done remotely with just 5% requiring on-site services. This 5% on-site communication is due to one particular client who is not yet electronic and other clients whom R&C provide with face-to-face educational services.

Customers pay anywhere from $40-$70 per audited account, with $55 being the approximate average. Auditors are expected to complete 3-4 account audits per hour with a goal of 30 audited accounts per day. Some clients require daily, pre-billing coding audits while others have accounts audited weekly, quarterly, monthly or bi-annually.

|  |
| --- |
| 2013 Revenue by Client through 7/10/13 |
| Client | **Summary Description** | **Current Contract Expires** | **Note on Stability of Client** | **YTD Rev** |
| Health Sys. | 4 hospitals, 450 beds | yearly contract, automatically renewed | Growth potential for centralized coding, training, education, clinical documentation improvement - | 10,460 |
| Hospital | 224 beds | yearly contract, automatically renewed | New HIM Director | 36,000 |
| Vendor/ Partner |  | On-going | Continued growth related to RAC audit services - | 12,325 |
| Health Sys. | 5 hospitals part of 28 hospitals Sys. | yearly contract, renewed 6/1/2013 | Acquired by larger system in June 2013. Unknown impact on R&C | 891,891 |
| Hospital | 475 beds | Project |  | 13,000 |
| Health Sys. | Hospital -350 beds, Physician groups | Yearly contract, quarterly audits, signed January 2013 | Continued growth related clinical documentation improvement, ICD-10 and physician services | 15,446 |
| Health Sys./Publically Traded | 4 hospitals/ 770 beds | Yearly contract, bi-annual audits, renewed in June 2013 | Continued growth in I-10, coding auditing, education | 20,570 |
| Health Sys., GA-2M patients | 5 acute hospitals -- 172 beds | yearly contract, renewed 7/1/2013 | Continued growth in physician services, outpatient revenue improvement, coding education, | 66,367 |
| Health Sys., GA-2M patients | 5 acute hospitals 215 beds | yearly contract, renewed 7/1/2013 | Continued growth in physician services, outpatient revenue improvement, coding education, | 43,208 |
| Health Sys., GA-2M patients | 5 acute hospitals -529 beds | yearly contract, renewed 7/1/2013 | Continued growth in physician services, outpatient revenue improvement, coding education, | 64,345 |
| Health Sys., GA-2M patients | Med. group expansion | yearly contract, renewed 7/1/2013 | Continued growth in physician services, outpatient revenue improvement, coding education, | 3,960 |
| Health Sys., GA-2M patients | 5 acute hospitals-52 beds | yearly contract, renewed 7/1/2013 | Continued growth in physician services, outpatient revenue improvement, coding education, | 22,195 |
| Health Sys., GA-2M patients | 5 acute hospitals-136 beds | yearly contract, renewed 7/1/2013 | Continued growth in physician services, outpatient revenue improvement, coding education, | 44,195 |
| Health Sys./CA | 4 acute care hospitals, 2 Med. groups | yearly contract, renewed January 2013 | Continued growth related to APR-DRG, ICD-10 | 40,500 |
| Health Sys./ TX/CA | 14 acute hospitals/Med. Groups/IPAs | yearly contract, renewed 7/1/2013 | Continued growth related to Sys. expansion, ICD-10 | 212,528 |
| TOTALS |  |  |  | **$1,496,994** |

## TYPICAL ONSITE/OFFSITE CLIENT PROJECT

A typical onsite project is conducted as follows. First, R&C and the client determine the audit sample methodology. The client typically retrieves clinical, billing, payment and other audit associated records, and establishes access to health information systems for electronic/hybrid portions of medical record documentation.

R&C conducts the audit kick-off with designated client representatives. This includes C suite, codings, and clinical documentation improvement staff. R&C then performs audits of designated cases and submits recommended changes (account detail worksheets generated by the R&C database) on a daily basis. The company will meet with coders, point of service staff, and physicians during review as questions arise. They also reconcile findings on a real-time basis if possible, generate client response reports in which audit responses are recorded by client and submitted back to R&C, and present results, an executive summary, and any recommendations to C suite at the end of the audit. The company also presents education based on preliminary findings to coders and other staff. R&C then obtains client responses (10-15 business days) and eventually writes a final report including their findings, trends and patterns, and the action plan.

A typical offsite project is conducted in a similar way to the onsite projects with a few variations to processes. For example, R&C will ensure system access for the staff, including the log-in/password information, is easily obtainable. R&C will also train staff on the use of hospital-specific electronic health systems. Also, R&C will make other necessary adjustments to ensure the process is running smoothly and efficiently. These changes in the process are implemented in order to ensure that operations will run smoothly off-site. For the most part, coder and other staff education is performed remotely using webinar technologies. In some cases, R&C account managers will perform on-site education as designated by the client.

## LARGE CLIENTS AND ATTRITION RISK & GROWTH OPPORTUNITY

In the 10 years since inception, R&C has experienced steady business growth and very strong client and staff retention. The majority of R&C clients are long-term, recurring revenue accounts with many same store sales opportunities. They have not lost a key customer in the past several years and client loyalty remains strong with many opportunities for providing additional services to the existing client base.

**R&C’s largest client** is a health system of 28 hospitals, with R&C currently doing work for 5 of the 28. R&C provides pre-billing and retrospective coding and billing compliance audits for this client. The client accounts for just over 70% of R&C revenue and was in the process of being acquired by a much larger health system at about the same time R&C renewed its current contract with them. While this acquisition created potential attrition risks for R&C, Sandy Walker was notified in late September that R&C would be a preferred vendor now for the entire system of the acquiring entity.

An acquisition that was initially perceived as a potential risk, now leaves R&C attempting to quantify growth implications the acquisition may have for R&C.

## SELECT LARGE CUSTOMERS

Healthcare System—28 Hospitals 2009-Present

* + - 2009 - Started relationship - RAC audits and education, revenue cycle, Compliance, Case Management, HIM teams
		- 2010 - Inpatient status - Case Management audits (monthly)
		- 2011 - Conducted yearly inpatient coding compliance audit and education (single audit)
		- Acquired by Current System in November 2011
		- March 2012 to Present – Daily, Pre-billing DRG review/validation, Discharge Summary re-route reviews and Coder QC
		- R&C uses client information systems to perform work. Only tool R&C staff use is laptop/PC with internet access.
			* R&C Revenue outcomes thus far:
				+ 23,000 accounts @ $65/account
				+ Recently reduced to $58.50/acct (April 2013)
				+ $1,486,993
* R&C has audited 22,979 cases to date with charges totaling $841,376,837
* There are 3.0 FTEs completing the reviews with .5 FTE working on special projects.

The Corporate Coding Compliance Vice President and Assistant VP have been so pleased with R&C that they initiated discussions with their New England Market hospitals to retain R&C to provide the same services as they provide in their Midwest locations. Contract has been signed and work is set to begin in July 2013.

* July 2013 – Begin same process for New England Market
* Anticipated revenue $3,500/week ($90K)

Georgia Health System—5 Hospital, 1 Medical Group 2012-Present

* Estimated base revenue: 10,200 accounts @ $55/account $561,000
* July 2012 services began
* 4 hospitals with quarterly coding compliance audits (retrospective)
* 1 hospital with monthly retrospective coding compliance audits
* This hospital may move to pre-billing DRG review (similar to DMC)
* In July 2013, largest hospital engaged (CFO driven) R&C to provide additional focused DRG audits (100 accts per month) in addition to quarterly audits and education services.
* $7,500/month auditing
* $7,500/education (coders)
* Estimated additional revenue for 2013: $90K
* In July, October and December 2012, R&C provided additional training services (trained Emergency Department staff regarding charge capture practices for additional fees of approx. $50K)
* 1 Medical Group—to propose HCC consulting in August 2013

15 State, 4M Member Health Plan, Expanding R&C Services 2009-Present

* Medicare C-HCC data sweeps and RADV (Risk Adjusted Data Validation) projects
* Provided HCC consulting services including coding review, and Mock Risk Adjustment Data Validation (RADV) services
* Michigan, Utah, Washington, CA (all work performed remotely)
* Revenue: $405,659
* Profit margin: 40%
* IC staffing with manager as exception
* $35-$45 per hour; $35/chart or $125/hour
* New Health Plan Director of Medicare Advantage was manager of HCC program at another R&C Health Plan client. R&C provided this other client with HCC services since 2007 with a total of $826,063. Majority of work in 2009 -2011. Manager went to this new Health Plan client and has now brought R&C in to provide HCC services most likely to take effect in July/August. Expect $500K for 2013.

Health System 13 Hospitals 2006-Present

* Revenues $2,489,261 total (approx. $360,000 per year)
* Quarterly and bi-yearly coding and billing integrity audits (retrospective)
* Monthly HCC consulting for IPA ($10K/month with 40% margin)
	+ - R&C considered part of Revenue Integrity team. Retained by Corporate VP Finance in 2012 and 2013 to conduct health system Emergency Department Coding and Charge Capture audit and associated education (additional $100K)

California Healthcare System—4 hospitals 2003-Present

* + - Coding compliance retrospective audits
		- Education
		- Expanded service offering and retained R&C to perform ICD-10 Gap Analysis, ICD-10 auditing (on-going) and APR-DRG Medi-Cal DRG auditing and training

Nation’s Leading Managed Care Organization (New Client) 2013

* + - Contract signed
		- Northern and Southern CA (other venues as well)
		- Hospital coding support
		- Anticipated $500K in 2013 revenue
		- Northern CA = remote coding support
		- Southern CA = on-site presently; moving to remote model
		- Corporate Director HIM Services long-time colleague of Sandy Walker. Brought R&C in as “blessed” coding vendor. 21 hospitals in NO CA, 20+ in SO CA. Other locations include: Georgia, Colorado, Hawaii, Ohio, Maryland, Oregon, Washington

New Client—700 Bed Health System 2013

* + - Contract pending
		- Daily, Pre-billing DRG review/validation, Discharge Summary re-route reviews and Coder QC
		- R&C uses client information systems to perform work. Only tool R&C staff use is laptop/PC with internet access.
		- HIM Director originally from New Jersey where he knew Sandy Walker. He attended presentation Sandy made at AHIMA national convention regarding ICD-10. Request for proposal initiated.
		- Anticipate $6,500/week – estimated $165K for 2013

New Client—California Physician Group 2013

* Revenue Coding provides HCC Medicare Risk services to a large California physician group.
* Contract signed fall of 2013, with 2013 revenue from client expected at 300-400k.
* The group has 35,000 Medicare Advantage patient accounts that require auditing. Annually, the work could generate about $1.5M.
* The physician group contracts with health plans and the physicians need to outsource their HCC work.
* R&C is currently in discussions to also provide coding services to this group.
* R&C believes this contract is likely to generate additional opportunities for work with the health plans that contract with the physicians in this group.

## SELECT CLIENT SUCCESS STORIES

**Hierarchical Condition Categories (HCCs) Success Story**

A Southern California IPA hired R&C to audit 700 medical records for possible HCC revisions. The purpose of the initial assessment was to evaluate the appropriateness of ICD-9-CM coding and physician documentation practices and to correct claims data to generate appropriate risk-adjusted reimbursement. R&C performed data analysis, identified probability factors, and provided physician and coding staff education. R&C continues to provide HCC management and on-going, monthly data analysis, auditing, and education.

Identified 246 omitted or incorrectly assigned HCCs.

Increased capitated contract revenue by 12%.

Initially recovered $1.2 million of additional HCC revenue.

**Cardiac Cath Lab Success Story**

At one client hospital, the Cardiac Cath Lab routinely omitted charges for cardiac catheterization injection supervision and interpretation services. R&C generated and analyzed database reports based on ICD-9-CM procedure codes and analyzed payer mix reports. From there, R&C forecasted revenue improvements and audited specific accounts. Pre-billing edits were developed to reduce denials and the CDM was corrected.

Generated $2.7 million in additional commercial payer reimbursement.

**RAC Preparedness Success Story**

A healthcare system contracted with R&C to conduct a pro-active RAC revenue risk assessment, audit and strategic plan. Data mining was performed to identify the cases most likely to be targeted by the RAC for DRG and medical necessity issues. R&C analyzed data mining results, performed a focused audit of 250 accounts, and identified RAC risk alongside revenue improvements. Finally, R&C conducted an assessment to determine RAC operational needs and provided performance improvement strategies including staff education.

Uncovered a 49% medical necessity denial rate with potential of $297,550 at RAC risk.

Uncovered a 75% DRG accuracy rate with net potential of $25,600 at RAC risk.

Implemented immediate RAC preparedness tactics based on R&C recommendations.

## CLIENTS IN SALES PIPELINE

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| --- |
| **Select/Immediate 2013 Pipeline Revenue** |
| Health plan—4.3M members | 15 states - HCC Consulting | Signed renewed project contract 7/1/2013 | $700K |
| Health System | MA Coding Compliance audits | Yearly contract, renewed March 2013 | $48K/yr |
| Hospital  | NY Coding Compliance audits | Contract signed December 2012 | $48K/yr |
| Health System | MA | Pending contract signature | $350k |
| Integrated Health Network | 27 hospitals CODING SUPPORT | Pending contract signature | $500k-1M |

## SALES AND MARKETING

R&C’s accelerated (but steady) growth is primarily attributed to expanded relationships with existing clients (same-store sales). As a result of quality deliverables, value-added services (e.g. education, action plans) and relationship building, clients (new and existing) request additional services. R&C clients look to R&C as their trusted advisors, and as such, R&C becomes an extension of the client’s coding and billing compliance/revenue cycle team.

R&C utilizes many different forms of marketing in order to draw in customers, including: building on the founders’ deep industry relationships, client referrals, same store sales, public speaking engagements, publications, tradeshows, and cold call sales (only one sales person employed). These efforts have proven successful as the company has achieved steady growth and high profit margins. Management has identified the following near-term opportunities:

## MANAGEMENT AND EMPLOYEES

***Labor and Related Matters***

In addition to the two officers, Sandy and Tim Walker, R&C employs 11 full-time staff members and contracts with an additional 32 independent contractors as auditors and IT personnel. Every employee and contractor is under a non-compete agreement.

|  |
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| **Employees (11) and Officers (2)** |
| President (Owner) | Innovation, leadership, development, administration |
| VP | Operations, staff, projects, clients; auditing, training |
| Manager, Audit Services | Audit management, workflow, staffing, client liaison, training, reporting |
| Lead Auditor | Inpatient/outpatient auditing, training, client liaison, I-10 auditing/training |
| Lead Outpatient Auditor | Outpatient auditing, training, I-10 auditing/training |
| Auditor | Outpatient auditing, database quality control, report writing |
| Auditor | Inpatient auditing, training |
| Auditor | Inpatient auditing, inpatient coding support |
| Auditor | Inpatient auditing |
| Auditor | Inpatient auditing, training, I-10 auditing/training |
| Sales & Recruiting Manager | Sales, recruiting, database management assistance |
| Manager, HCC Services | HCC audits and projects, workflow, staffing, client liaison, training, reporting |
| Secretary (Owner) | Financials, payroll, HR |
| **Independent Contractors (32)** |
| 23 | HCC Auditor/Coders | HCC coding and auditing projects (all remote) |
| 6 | Inpatient Auditors/Coders | Inpatient auditing, inpatient coding support, I-10 auditing/training |
| 2 | Information Systems Managers | R&C terminal server management; access database management & development |
| 1 | Web Server Manager | Website and e-mail server updates |

## COMPANY POSITIONS AND DUTIES

**Sandy Walker, BS, CCS, I-10 Approved Trainer Co-owner President**

Sandy Walker is the president and founder of Revenue Coding & Associates with over 30 years of experience in the fields of health information and revenue management. Sandy has developed and implemented hospital-based inpatient and outpatient revenue integrity consulting services, RAC consulting services, various types of data mining, auditing, training services, tracking software, and nationally celebrated training programs. Her roles include developing, administering, and managing services that address best practices in clinical and revenue integrity.

**Cheryl South, RHIA, CCS, I-10 Approved Trainer**

Cheryl South is the vice-president of R&C with over 30 years of experiences in the fields of health information managements. Cheryl’s extensive background qualifies her to manage revenue integrity audit services, perform case management process assessments, conduct medical necessity admission screening audits, provide operational assessments, and offer interim director/management solutions for healthcare facilities.

**Mr. Tim Walker, Co-owner, Secretary**

Mr. Tim Walker is the co-owner of Revenue Coding & Associates. His duties include payroll manager, invoicing overseer, and financial planner. Tim dedicates 5-10 hours per week to the company and R&C believe that his duties can be absorbed by the acquiring organization.

**Auditors**

These individuals remotely review medical records, physician documentation and billing information to validate that ICD-9-CM, ICD-10 and CPT/HCPCS codes are correctly assigned and are supported by physician and clinical documentation. There are three subcategories within auditors: Hospital Inpatient Auditors, Hospital Outpatient Auditors, and HCC Auditors.

Hospital inpatient auditors validate MS-DRG and APR-DRG assignments (hospital inpatient payment systems used by Medicare, Medicaid and other commercial payers). These individuals need to have superlative written and verbal communication and have a high-level subject matter expertise.

Hospital outpatient auditors validate APC (hospital outpatient payment system used by Medicare and other commercial payers). These individuals review charge capture, billing and nursing documentation practices as well as physician documentation and coding practices. They also need to have superlative written and verbal communication and have a high-level subject matter expertise.

HCC auditors review physician documentation practices and ICD-9 diagnosis codes to ensure compliance with Medicare Part C requirements. These individuals also provide training to physicians.

**Trainers**

These individuals provide onsite training to physicians, coding professionals, and internal staff. Specifically in regards to internal staff, trainers provide case management training as well as point of service charge capture and nursing training.

**Coders**

These individuals provide remote on-going coding support to hospital inpatient, outpatient, and physician services. This is all done remotely in order to ensure timeliness as well as responsiveness.

**Employee Compensation**

Employees are compensated in a variety of ways based on position. Exempt employees receive salaries and are compensated as followed: The president receives $153,000 annually. The secretary receives $148,000 annually. The vice president receives $148,000 annually. The manager of audit services receives $85,000 annually. The non-exempt employees receive an hourly wage that equates to somewhere between $60,000 and $85,000, including benefits. Independent contractors receive an hourly wage of $35-$50.

**Labor Margins**

Average auditor compensation works out to approximately $45 per hr. Auditors are expected to complete about 30 accounts per day, for which R&C would generally bill about $55 per account. Thus an R&C would typically generate daily revenue about $1,650 per auditor, while paying out $360 of this and generating approximately $1,290 in gross profit.

## TECHNOLOGY

R&C utilizes a variety of technology throughout their regular business operations. The company utilizes an access database, a terminal server (virtual network that is not to be confused with VPN), the TruCode**®** encoder product, a file share system, and back-up systems.

The costs for maintenance and development of each technology are as follows: Access database’s costs total $18,000 annually. The terminal server’s costs total $11,000 annually. The encoder product’s costs total $35,000 annually. The file share system’s costs total $2,500 annually. The back-up system’s costs total $4,000 annually.

##  AUDITING AND COMPLIANCE

A major source of R&C revenue comes from doing audit and compliance work for its clients. Quality health care depends on accurate and complete clinical documentation in the medical record. The best way to improve clinical documentation and the livelihood of health care organization is through coding and billing audits. They are necessary to determine areas that require improvements and corrections.

The goals of an audit are to provide efficient and better delivery of care and to improve the financial health of the medical provider. Medical record audits specifically target and evaluate procedural and diagnosis code selection as determined by physician documentation. Once areas of weakness are revealed through an audit, you can present the audit findings and identify opportunities for training and improved documentation in the health care organization.

Medical auditing entails conducting internal or external reviews of coding accuracy, policies, and procedures to ensure the provider is running an efficient and hopefully liability-free operation.

There are many reasons to perform medical audits:

Healthcare compliance addresses the ever-growing compliance requirements of government laws, regulations, rules, and guidelines. Healthcare agencies increasingly are turning to companies like R&C to assist them meeting these requirements.

#### COMPETITION

The Health Care Compliance Association (HCCA) is the leading member-based organization for compliance professionals in the healthcare field and boasts of a membership in excess of 8,500. AAPC, another association, which is focused on education and certification of coding, audit, and compliance professionals, reports a membership of some 122,000. The American Health Information Management Association (AHIMA), in its online marketplace directory, lists 129 Audit/Compliance consulting/service providers.

Competitors for R&C’s services include small companies, specializing in specific coding & auditing services, large national healthcare consulting firms, information management or staffing companies, and in-house customer staffs. R&C’s strategy has always been to deliver premium customized services that bridge the gap between clinical coding and revenue integrity. With R&C, customers receive personal service with proven results, the learning edge many competitors lack, comprehensive reporting, and trusted advising from experienced professionals.

R&C’s contractor model, diversified in coder qualifications and geographic coverage, allows the Company to compete nationwide on quality, breadth and depth of coding services, as well on costs compared to other competitors. Due to the depth of its customer relationships and its preferred vendor status with most of its customers, R&C experiences a limited amount of competition for its services.

## SELECT COMPETITORS WORKING IN CODING COMPLIANCE

**Select Publically Traded Competitors (Click to select)**

* [McKesson](http://www.mckesson.com/providers/health-systems/department-solutions/revenue-cycle-management/revenue-cycle-management-for-hospitals/)
* [Health Revenue Assurance Holdings (HRAA)](http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=170226013)
* [3M](http://www.healthcare-informatics.com/hci100/3m-health-information-systems)
* [Nuance](http://www.nuance.com/go/clintegrity360/index.htm)
* [PWC](http://www.pwc.com/)

**Select Larger Privately Held Competitors**

* [M\*Modal](http://mmodal.com) (Was public until taken private by JP Morgan’s One Equity Partners)
* [Precyse](http://www.precyse.com/services_auditcompliance.php)
* [Peak Health Solutions](http://www.peakhs.com)
* [SPiHealthcare](http://www.spihealthcare.com/solutions/health-information-management/now-time-optimum-coding-performance)
* [CareCommunications](http://www.carecommunications.com/coding_compliance_services.html)
* [Altegra](http://www.altegrahealth.com)
* [National Healthcare Review, Inc.](http://www.nhri.com/services.html)
* [Reimbursement Management Consultants, Inc.](http://www.rmcinc.org/services.html)
* [YPRO](http://www.yprocorp.com/solutions.html)
* [OPTUMInsight](http://www.optuminsight.com/increase-revenue/hospitals/)

**Select Similarly Sized Competitors**

* [Health Revenue Assurance Holdings (HRAA)](http://www.healthrevenue.com.)
* [Healthcare Cost Solutions](http://www.hcsstat.com)
* [Case Mix Analysis, Inc. (CMA)](http://casemixanalysis.com/menu2.html)
* [H.I.M. ON CALL](http://www.himoncall.com/solutions)
* [Healthcare Coding & Consulting Services](http://www.hccscoding.com/consult.html)
* [Aviacode](http://www.aviacode.com/services/coding-audit-services)
* [HRS](http://www.hrscoding.com/hospitals/inpatient-audits/inpatient-coding-audits/)

#  FINANCIALS

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| Revenue Coding and Associates 2013 (Jan-May) Normalized & Annualized |
| Income | **Total** | **Add-Backs & Annualized** | **Notes** |
| Total Income | **1,219,375** | **$3,526,499** | Annualized to 2.9M plus expected new business of 600k. |
| Expenses |   |   |   |
|  6050 Advertising Expense | 923 |   |   |
|  6110 Automobile Expense | 1,885 | 3600 | Sellers personal vehicle |
|  6145 Information Systems | 15,982 |   |  |
|  6160 Dues and Subscriptions | 2,443 | 2880 | Discretionary |
|  6162 Employee Benefits | 188 |   |   |
|  6180 Insurance |   |   |   |
|  6181 Liability Insurance | 85 |   |   |
|  6183 Workers Comp  | 153 |   |   |
|  Total 6180 Insurance | 238 |   |   |
|  6200 Interest Expense | 14 |   |   |
|  6230 Internet Expenses | 901 |   |   |
|  6280 Marketing & Promotion | 821 |   |   |
|  6285 Meals - Business Promotion | 8 |   |   |
|  6290 Office Expense | 257 |   |   |
|  6300 Office Supplies | 422 |   |   |
|  6350 Outside Services | 975 |   |   |
|  6380 Parking & Tolls | 693 |   |   |
|  6400 Payroll Expenses |   |   |   |
|  6410 Gross Wages - Officers | 144,095 |   | Sandy is 153k annually, Tim 148k. Plus they take bonuses each year. |
|  6420 Payroll Tax Expense | 30,900 |   |   |
|  Total 6400 Payroll Expenses | 174,994 | 530,000 | Officer salaries and bonuses ended up at in 2012 |
|  6415 Gross Wages - staff | 200,516 |   |  |
|  6440 Pension Plan Expense | 10,185 | 66,000 | 3% Safe Harbor company contributions for non-shareholder employees; 3% discretionary profit sharing contributions for shareholders. |
|  6450 Postage and Delivery | 678 |   |   |
|  6460 Printing  | 60 |   |   |
|  6472 Accounting | 4,256 |   |   |
|  |  |  |  |
|  6473 Independent Contractors | 239,429 |   | IC—35-50 dpr. Customers will pay 125 dpr but most pay by piece-works out to about $180 per hr. |
|  Total 6470 Professional Fees | 243,685 |   |   |
|  6500 Reference Materials | 799 |   |   |
|  6530 Software Expense | 18,837 |   | Tru-Code License--3 year contract, with 1-2 years left. |
|  6540 Telephone | 75 |   |   |
|  6560 Telephone - cell phone | 1,210 |   |   |
|  Total 6540 Telephone | 1,285 |   |   |
|  6650 Travel & Ent |   |   |   |
|  6654 Meals | 1,813 |   |   |
|  6656 Hotel | 5,553 |   |   |
|  6658 Airline expense | 7,054 |   |   |
|  6660 Car rental expense | 681 |   |   |
|  6665 Mileage (Non-Reimb) | 614 |   |   |
|  Total 6650 Travel & Ent | 15,714 | 3,600 | 3600 in discr. travel |
|  6673 Car Rental reimbursable | 1,357 |   |   |
|  6676 Hotel & Lodging | 1,336 |   |   |
|  Total 6670 Travel & Ent Reimbursable | 2,693 |   | IC Travel |
|  6900 Website expense | 216 |   |   |
| Total Expenses | 695,413 |   |   |
| Net Operating Income | 523,962 |   |   |
| Other Income |   |   |   |
|  7000 Interest Income | 263 |   |   |
| Total Other Income | 263 |   |   |
| Net Other Income | 263 |   |   |
| Net Income | 524,225 | 1,258,140 |   |
| Adjustments |   | 606,080 |   |
| Seller's Discretionary Earnings |   | **$2,104,220** | **60**% |

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| Revenue Coding and Associates 2012 Normalized |
| Income | Total | Add Backs | Notes |
| Total Income | **$1,834,102** |  |  |
| Expenses |  |  |  |
|  6050 Advertising Expense | 3,600 |  |  |
|  6110 Automobile Expense | -5,833 |  |  |
|  6120 Bank Service Charges | 148 |  |  |
|  6123 Conference Expenses | 433 |  |  |
|  6145 Information Systems | 37,276 |  |  |
|  6150 Depreciation Expense | 6,502 |  |  |
|  6160 Dues and Subscriptions | 7,824 | 2,880 |  |
|  6162 Employee Benefits | 5,377 |  |  |
|  6170 Gifts for Business | 2,902 |  |  |
|  6180 Insurance | -11 |  |  |
|  6181 Liability Insurance | 2,498 |  |  |
|  6183 Workers Comp Insurance | 1,546 |  |  |
|  6186 Officer Life Insurance | 14,508 |  |  |
|  Total 6180 Insurance | 18,541 |  |  |
|  6200 Interest Expense | 5 |  |  |
|  6230 Internet Expenses | 1,340 |  |  |
|  6235 Janitorial | 600 |  |  |
|  6240 Legal Expense | 2,372 |  |  |
|  6250 Licenses and Permits | 135 |  |  |
|  6280 Marketing & Promotion | 3,412 |  |  |
|  6285 Meals - Business Promotion | 321 |  |  |
|  6290 Office Expense | 2,842 |  |  |
|  6300 Office Supplies | 517 |  |  |
|  6350 Outside Services | 451 |  |  |
|  6380 Parking & Tolls | 1,288 |  |  |
|  6400 Payroll Expenses |  |  |  |
|  6410 Gross Wages - Officers | 528,315 | 528,315 |  |
|  6420 Payroll Tax Expense | 41,613 |  |  |
|  Total 6400 Payroll Expenses | 569,927 |  |  |
|  6415 Gross Wages - staff | 253,953 |  |  |
|  6440 Pension Plan Expense | 88,347 | 66,000 |  |
|  6450 Postage and Delivery | 3,559 |  |  |
|  6460 Printing and Reproduction | 345 |  |  |
|  6472 Accounting | 12,763 |  |  |
|  6473 Independent Contractors | 586,333 |  |  |
|  Total 6470 Professional Fees | 599,096 |  |  |
|  6500 Reference Materials | 9,620 |  |  |
|  6510 Repairs | 171 |  |  |
|  6530 Software Expense | 36,226 |  |  |
|  6540 Telephone | 115 |  |  |
|  6560 Telephone - cell phone | 2,895 |  |  |
|  Total 6540 Telephone | 3,010 |  |  |
|  6650 Travel & Ent - Reimbursable |  |  |  |
|  6654 Meals - reimbursable | 1,706 |  |  |
|  6655 Airline expense - reimbursable | 3,236 |  |  |
|  6656 Hotel - reimbursable | 11,909 |  |  |
|  6667 Car rental - reimbursable | 2,421 |  |  |
|  Total 6650 Travel & Ent- Reimbursable | 19,272 | 3,600 |  |
|  6670 Travel & Ent - non-reimbursable |  |  |  |
|  6674 Meals – non-reimbursable | 3,705 |  |  |
|  6675 Airline – non-reimbursable | 7,832 |  |  |
|  6676 Hotel & Lodging-non-reimbursable | 4,859 |  |  |
|  6680 Air - non-reimbursable | 53 |  |  |
|  6685 Mileage - non-reimbursable | 1,985 |  |  |
|  Total 6670 Travel & Ent Non-reimbursable | 18,434 |  |  |
|  6700 Taxes |  |  |  |
|  6720 State | 2,787 |  |  |
|  Total 6700 Taxes | 2,787 |  |  |
|  6800 Utilities | 350 |  |  |
|  6900 Website expense | 253 |  |  |
|  Uncategorized Expense | 0 |  |  |
| Total Expenses | 1,695,404 |  |  |
| Net Operating Income | 138,698 |  |  |
| Other Income |  |  |  |
|  7000 Interest Income | 589 |  |  |
| Total Other Income | 589 |  |  |
| Other Expenses |  |  |  |
|  8010 Non-Deductible Expense | 5 |  |  |
| Total Other Expenses | 5 |  |  |
| Net Other Income | 584 |  |  |
| Net Income | 139,282 |  |  |
| Adjustments |  | 600,795 |  |
| Seller's Discretionary Earnings |  | **$740,077** | **40%** |

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| Income by Client Summary 2010-2013YTD |
|  |  |  |  |  |  |
| Summary Description | **Client Since** | **2010** | **2011** | **2012** | **2013H1** |
| Health System 4 hospitals, 450 beds | **2009** |  |  | 19,978 | 10,461 |
| Hospital 224 beds | **2006** | 62,503 | 54,543 | 36,056 | 36,000 |
| Vendor/ Partner | **2009** | 14,518 | 12,090 | 24,735 | 12,325 |
| Heath System |  | 29,104 |  |  |  |
| Health system 5 hospitals part of 29 hospitals system | **2009** | 80,978 | 53,470 | 559,585 | 891,891 |
| Inpatient Physician Group |  |  | 1,000 |  |  |
| Physician Group |  | 5,253 | 7,503 |  |  |
| Hospital 475 beds |  |  |  |  | 13,000 |
| Medical Center |  | 13,624 |  | 1,440 |  |
| Health System Hospital -350 beds, Physician groups |  |  |  |  | 15,447 |
| Vendor/Partner |  |  | 2,353 |  |  |
| Health System/ Publically Traded 4 hospitals/ 770 beds |  | 25,986 | 68,076 | 40,095 | 20,570 |
| Hospital  |  | 13,668 | 13,961 | 13,956 |  |
| Health System |  | 61,122 | 70,944 |  |  |
| Hospital |  | 4,721 | 3,287 |  |  |
| Hospital |  |  | 12,000 |  |  |
| Hospital |  | 17,467 |  |  |  |
| Hospital |  | 17,066 | 14,280 | 8,000 |  |
| Health Plan |  |  | 82,234 | 32,3425 |  |
| Health System, GA-2M patients 5 acute hospitals -- 172 beds | **2012** |  |  |  | 66,368 |
| Health System, GA-2M patients 5 acute hospitals 215 beds | **2012** |  |  | 39,538 | 43,209 |
| Health System, GA-2M patients Med. group expansion | **2012** |  |  |  | 3,960 |
| Health System, GA-2M patients 5 acute hospitals-52 beds | **2012** |  |  |  | 22,195 |
| Health System, GA-2M patients 5 acute hospitals-136 beds | **2012** |  |  |  | 44,195 |
| Health System, GA-2M patients 5 acute hospitals -529 beds | **2012** |  |  | 78,869 | 64,346 |
| Physician Network |  | 11,850 |  |  |  |
| Health Plan |  | 300,157 | 231,254 |  |  |
| Health System/CA 4 acute care hospitals, 2 Med. Groups | **2003** | 44,927 | 114,280 | 78,975 | 40,500 |
| Hospital |  |  | 6,125 |  |  |
| Medical Center |  | 46,040 |  |  |  |
| Hospital/CA |  | 27,815 | 35,790 | 29,200 |  |
| Hospital/Clinics |  | 22,092 |  |  |  |
| University Hospital |  |  |  | 6,000 |  |
| University Hospitals |  | 42,890 | 6,000 |  |  |
| Health System/ TX/CA 14 acute hospitals/Med. Groups/IPAs | **2007** | 457,779 | 523,715 | 424,095 | 212,528 |
|  |  | **1,299,557** | **1,312,903** | **1,683,947** | **1,496,994** |
| 2013 Projected | **3,526,499** |

## REVENUE GROWTH

R&C has enjoyed consistent revenue growth and exceptional profit margins for several years. Management attributes this to the company’s 100% success rate in client retention, the continuous expansion of its services to its existing customers, and consistently adding new clients from referrals and ongoing sales efforts.

Cash Basis

Central to this growth has been R&C’s strong ability to create and strengthen relationships with large-scale health systems, which in particular has led to ever-increasing opportunity for service. For example, early in 2012, R&C was able to add 23,000 accounts successfully from a large, existing Midwest-based health system client. R&C had been providing services to other facilities within the system since 2009, so when they needed help in facilities of another geographic region, R&C was the logical choice.

R&C sees a vast array of similar opportunities to further deploy their solutions and thus significantly expand the scope and reach of their business model. The company plans to offer ICD-10 auditing, coding, and training services to acute care facilities and physicians across the country. Medicaid DRG auditing as well as commercial payer and Medicaid denials management are additional areas of promise.

|  |
| --- |
| Balance Sheets (2010-2013) |
|  | **2010** | **2011** | **2012** | **2013YTD 5/31** |
|  | **Total** | **Total** | **Total** | **Total** |
| ASSETS |  |  |  |  |
|  Current Assets |  |  |  |  |
|  Cash | 199208 | 339734 | 403133 | 805547 |
|  Trade Accounts Receivable | 367275 | 147992 | 298274 | 331801 |
|  Prepaid Expenses | 64 | 2711 | 2800 | 1989 |
|  Total Current Assets | **566547** | **490437** | **704207** | **1139337** |
|  Fixed Assets |  |  |  |  |
|  1610 Machinery & Equipment | 6857 | 10351 | 12596 | 14371 |
|  1615 Customized Software | 11500 | 11500 | 11500 | 11500 |
|  1620 Vehicles | 28690 | 28690 | 28690 | 28690 |
|  Less Accumulated Depreciation | -29833 | -37766 | -43166 | -42693 |
|  Net Property and Equipment | 17214 | 12775 | 9620 | 11868 |
| TOTAL ASSETS | **583761** | **503212** | **713827** | **1148892** |
| LIABILITIES AND EQUITY |  |  |  |  |
|  Liabilities |  |  |  |  |
|  Current Liabilities |  |  |  |  |
|  Accounts Payable | 20193 | 24238 | 64947 | 35459 |
|  Credit Card Liability | 7085 | 6077 | 9117 | 9978 |
|  Payroll Taxes Payable | 18465 | 11417 | 17432 | 89 |
|  Automobile Loan Payable | 5221 |  |  |  |
|  Pension Plan Liability | 50290 | 66112 | 70572 | 4868 |
|  Shareholder Loan Payable |  |  | 16090 | 1359 |
|  State Franchise Tax Payable | 1301 | 2063 | 76 | 6776 |
|  Total Current Liabilities | **102555** | **109907** | **178234** | **58529** |
|  Shareholder's Equity |  |  |  |  |
|  5,000 Shares Issued and Outstanding | 5000 | 5000 | 5000 | 5000 |
|  Retained Earnings | 476206 | 388305 | 530593 | 1085363 |
|  Total Shareholder's Equity | **481206** | **393305** | **535593** | **1090363** |
| TOTAL LIABILITIES AND EQUITY | **583,761**  | **503,212**  | **713,827**  | **1,148,892**  |

## ASSETS INCUDED WITH THE SALE OF THE COMPANY

Mr. and Mrs. Walker will be bundling a variety of other assets along with the sale of their company. Included within the sale of the company is the client lists, websites, phone and fax numbers, computers utilized within the business, and software licenses.

## EXCLUDED ASSETS

Sellers will deliver the company free and clear of all liabilities and will retain the cash and accounts receivables.

## LEGAL PROCEEDINGS

There are no legal proceedings against the company.

## NEXT STEPS

The owners of R&C see great opportunity for continued growth. As part of their strategic plan for growth and the eventual retirement of the founders, R&C is seeking the right partner to capitalize on these opportunities and plans.

Interested parties should contact Kruse Acquisitions, LLC to explore their interest.

Tim Kruse

Kruse Acquisitions, LLC

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