

Emdeon Inc.
Form 10-Q
July 24, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

Commission file number 1-34435

EMDEON INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

20-5799664
(I.R.S. Employer

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Incorporation or Organization)

Identification No.)

3055 Lebanon Pike, Suite 1000

Nashville, TN

(Address of Principal Executive Offices)

37214

(Zip Code)

(615) 932-3000

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

Class	Outstanding as of July 24, 2015
Common Stock, \$0.01 par value	100

* The registrant is a voluntary filer of certain reports required to be filed by companies under Section 13 or 15(d) of the Securities and Exchange Act of 1934 and has filed all reports that would have been required to have been filed by the registrant during the preceding 12 months had it been subject to such filing requirements during the entirety of such period.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Emdeon Inc.****Condensed Consolidated Balance Sheets****(unaudited and amounts in thousands, except share and per share amounts)**

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 160,376	\$ 82,306
Accounts receivable, net of allowance for doubtful accounts of \$3,470 and \$6,377 at June 30, 2015 and December 31, 2014, respectively	234,140	233,791
Deferred income tax assets	14,055	18,893
Prepaid expenses and other current assets	29,939	29,246
Total current assets	438,510	364,236
Property and equipment, net	222,392	244,153
Goodwill	1,697,891	1,702,569
Intangible assets, net	1,484,772	1,539,394
Other assets, net	18,849	20,312
Total assets	\$ 3,862,414	\$ 3,870,664
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 21,896	\$ 16,399
Accrued expenses	196,494	175,206
Deferred revenues	10,636	10,518
Current portion of long-term debt	27,133	27,308
Total current liabilities	256,159	229,431
Long-term debt, excluding current portion	2,137,214	2,146,597
Deferred income tax liabilities	378,488	413,227
Tax receivable agreement obligations to related parties	172,780	163,983
Other long-term liabilities	12,858	15,361
Commitments and contingencies		
Equity:		
Common stock (par value, \$.01), 100 shares authorized and outstanding at June 30, 2015 and December 31, 2014, respectively		
Additional paid-in capital	1,150,667	1,149,360
Accumulated other comprehensive income (loss)	(2,590)	(1,955)
Accumulated deficit	(243,162)	(245,340)
Total equity	904,915	902,065
Total liabilities and equity	\$ 3,862,414	\$ 3,870,664

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See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Emdeon Inc.****Condensed Consolidated Statements of Operations****(unaudited and amounts in thousands)**

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue:				
Solutions revenue	\$ 263,805	\$ 249,077	\$ 522,216	\$ 485,211
Postage revenue	90,996	87,081	178,280	170,154
Total revenue	354,801	336,158	700,496	655,365
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)	121,288	115,499	242,474	227,832
Development and engineering	10,123	7,062	20,949	15,968
Sales, marketing, general and administrative	46,973	52,738	95,237	103,911
Customer postage	90,996	87,081	178,280	170,154
Depreciation and amortization	49,515	46,630	97,629	93,093
Accretion	3,818	4,844	8,797	4,768
Impairment of long-lived assets	122	76,508	961	79,576
Operating income (loss)	31,966	(54,204)	56,169	(39,937)
Interest expense, net	38,135	36,543	76,143	73,106
Contingent consideration	1,850	(290)	(165)	1,670
Other		(3,971)		(3,971)
Income (loss) before income tax provision (benefit)	(8,019)	(86,486)	(19,809)	(110,742)
Income tax provision (benefit)	(15,947)	(26,959)	(21,987)	(48,226)
Net income (loss)	\$ 7,928	\$ (59,527)	\$ 2,178	\$ (62,516)

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Emdeon Inc.****Condensed Consolidated Statements of Comprehensive Income (Loss)****(unaudited and amounts in thousands)**

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income (loss)	\$ 7,928	\$ (59,527)	2,178	(62,516)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	109	(735)	(451)	(859)
Foreign currency translation adjustment	92	100	(184)	27
Other comprehensive income (loss)	201	(635)	(635)	(832)
Total comprehensive income (loss)	\$ 8,129	\$ (60,162)	\$ 1,543	\$ (63,348)

See accompanying notes to unaudited condensed consolidated financial statements.

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

(unaudited and amounts in thousands, except share amounts)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (Loss)	Equity
Balance at January 1, 2014	100	\$	\$ 1,139,375	\$ (169,486)	\$ (1,343)	\$ 968,546
Equity compensation expense			3,682			3,682
Repurchase of Parent common stock			(869)			(869)
Capital contribution from Parent			2,092			2,092
Net income (loss)				(62,516)		(62,516)
Foreign currency translation adjustment					27	27
Change in fair value of interest rate swap, net of taxes					(859)	(859)
Balance at June 30, 2014	100	\$	\$ 1,144,280	\$ (232,002)	\$ (2,175)	\$ 910,103
Balance at January 1, 2015	100	\$	\$ 1,149,360	\$ (245,340)	\$ (1,955)	\$ 902,065
Equity compensation expense			4,183			4,183
Issuance of shares in connection with equity compensation plans, net of taxes			305			305
Repurchase of Parent common stock			(3,681)			(3,681)
Capital contribution from Parent			500			500
Net income (loss)				2,178		2,178
Foreign currency translation adjustment					(184)	(184)
Change in fair value of interest rate swap, net of taxes					(451)	(451)
Balance at June 30, 2015	100	\$	\$ 1,150,667	\$ (243,162)	\$ (2,590)	\$ 904,915

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Emdeon Inc.****Condensed Consolidated Statements of Cash Flows****(unaudited and amounts in thousands)**

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating activities		
Net income (loss)	\$ 2,178	\$ (62,516)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	97,629	93,093
Accretion	8,797	4,768
Equity compensation	4,183	3,682
Deferred income tax expense (benefit)	(23,213)	(48,695)
Amortization of debt discount and issuance costs	4,579	3,843
Contingent consideration	(165)	1,670
Impairment of long-lived assets	961	79,576
Other		(2,029)
Changes in operating assets and liabilities:		
Accounts receivable	(1,420)	(25,648)
Prepaid expenses and other	(1,084)	(7,251)
Accounts payable	6,293	1,237
Accrued expenses, deferred revenue and other liabilities	24,860	(7,897)
Net cash provided by (used in) operating activities	123,598	33,833
Investing activities		
Purchases of property and equipment	(24,654)	(25,952)
Proceeds/(payments) for acquisitions, net of cash acquired	824	(779)
Other	(90)	36
Net cash provided by (used in) investing activities	(23,920)	(26,695)
Financing activities		
Payments on Term Loan Facility	(7,240)	(7,669)
Payment of debt assumed from acquisition		(1,877)
Deferred financing obligation payments	(5,939)	(4,176)
Repurchase of Parent common stock	(3,681)	(869)
Capital contribution from Parent	805	2,092
Payment of Contingent Consideration	(5,553)	
Net cash provided by (used in) financing activities	(21,608)	(12,499)
Net increase (decrease) in cash and cash equivalents	78,070	(5,361)
Cash and cash equivalents at beginning of period	82,306	76,538
Cash and cash equivalents at end of period	\$ 160,376	\$ 71,177

See accompanying notes to unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

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

1. Nature of Business and Organization

Nature of Business

Emdeon Inc. (the Company), through its subsidiaries, is a provider of software and analytics, network solutions and technology-enabled services that optimize communications, payments and actionable insights by leveraging its intelligent healthcare platform, which includes one of the largest financial and administrative networks in the United States healthcare system. The Company's platform and solutions integrate and automate key functions of its payer, provider and pharmacy customers throughout the patient encounter, from consumer engagement and pre-care eligibility and enrollment through payment.

Organization

The Company was formed as a Delaware limited liability company in September 2006 and converted into a Delaware corporation in September 2008 in anticipation of the Company's August 2009 initial public offering (the IPO). On November 2, 2011, pursuant to an Agreement and Plan of Merger among the Company, Beagle Parent Corp. (Parent) and Beagle Acquisition Corp. (Merger Sub), Merger Sub merged with and into the Company with the Company surviving the merger (the Merger). Subsequent to the Merger, the Company became an indirect wholly-owned subsidiary of Parent, which is controlled by affiliates of The Blackstone Group L.P. (Blackstone).

2. Basis of Presentation

Principles of Consolidation

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

Reclassifications

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

Effective January 1, 2015, the Company completed an internal reorganization of its reporting structure which resulted in a change in the composition of its reportable segments to software and analytics, network solutions and technology-enabled services. Prior period segment information has been restated to reflect the current organizational structure.

Effective January 1, 2015, in order to clarify the nature of its customer related postage activities, the Company also created separate captions on the statement of operations within revenue and costs and expenses, respectively. Previously, such amounts were included within revenue and costs of operations. To conform to the current period presentation, costs of operations were reduced by \$87,081 and \$170,154 and reclassified as customer postage for the three and six months ended June 30, 2014, respectively.

Accounting Estimates

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

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

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

Business Combinations

The preliminary values of the consideration transferred, assets acquired and liabilities assumed in the recent Change Healthcare Corporation and Adminisource Communications, Inc. acquisitions, including the related tax effects, remain subject to receipt of a final valuation and finalization of tax amounts.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, which replaces most prior general and industry specific revenue recognition guidance with a principles-based comprehensive revenue recognition framework. Under this revised framework, a company will recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. This update is effective for fiscal years and interim periods beginning in those years after December 15, 2017. Early adoption is permitted in years beginning after December 15, 2016. Upon adoption, a company may elect to either retrospectively restate each prior reporting period or reflect the cumulative effect of initially applying the update with an adjustment to retained earnings. The Company is currently assessing the potential effects this update may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, which clarifies, in the context of share-based payment awards, that a performance target that affects vesting and could be achieved after the requisite service period has been rendered should be treated as a performance condition. Prior to this update, because there was no explicit guidance, there was diversity in practice among companies. This update is effective for fiscal years and interim periods within those years beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this update to have a material effect on its consolidated financial statements.

In January 2015, the Company adopted FASB ASU No. 2014-08, which changes the requirements for reporting discontinued operations. Following adoption of this update, discontinued operations generally will be reported for the disposal by sale or otherwise of a component or a group of components that represents a strategic shift that has or will have a major effect on an entity's operations and financial results. Upon adoption, this update had no effect on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, which requires that debt issue costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This update is required to be applied on a retrospective basis wherein the balance sheet of each individual period presented must be adjusted to reflect the period specific effects of applying this new guidance. This update is effective for fiscal years and interim periods within those years beginning after December 31, 2015, with early adoption permitted. The Company expects to adopt this update effective July 1, 2015. If the update were adopted as of June 30, 2015, other assets within the consolidated balance sheet and long-term debt, excluding current portion would be reduced by \$9,911.

In April 2015, the FASB issued ASU No. 2015-05, which provides guidance to customers about whether a cloud computing arrangement includes a software license and requires that all software licenses utilized in internal use software arrangements be accounted for consistent with other licenses of intangible assets. This update is effective for fiscal years and interim periods within those years beginning after December 31, 2015, with early adoption permitted. Upon adoption, a company may elect to apply the update prospectively to all arrangements entered into or

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materially modified after the effective date or retrospectively. The Company expects to adopt this update prospectively on all new or materially modified arrangements effective July 1, 2015 but does not expect the adoption of this update to have a material effect on its consolidated financial statements.

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The Company's revenue is primarily generated in the United States. Changes in economic conditions, government regulations or demographic trends, among other matters, in the United States could adversely affect the Company's revenue and results of operations.

The Company maintains its cash and cash equivalent balances in either insured depository accounts or money market mutual funds. The money market mutual funds are limited to investments in low-risk securities such as United States or government agency obligations, or repurchase agreements secured by such securities.

4. Long-Term Debt

In November 2011, the Company entered into a credit agreement which was comprised of a senior secured term loan facility (as amended, the Term Loan Facility), a revolving credit facility (the Revolving Facility; together with the Term Loan Facility, the Senior Credit Facilities), 11% senior notes due 2019 (the 2019 Notes) and 11.25% senior notes due 2020 (the 2020 Notes; together with the 2019 Notes, the Senior Notes).

Long-term debt as of June 30, 2015 and December 31, 2014, consisted of the following:

	June 30, 2015	December 31, 2014
<i>Senior Credit Facilities</i>		
\$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$11,162 and \$12,740 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 4.21%)	\$ 1,247,790	\$ 1,252,652
\$160 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$2,078 and \$2,369 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 4.56%)	156,722	157,231
\$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate		
<i>Senior Notes</i>		
\$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$6,207 and \$6,720 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 11.53%)	368,793	368,280
\$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$8,113 and \$8,624 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 11.86%)	366,887	366,376
<i>Obligation under data sublicense agreement</i>	17,242	17,237
<i>Other</i>	6,913	12,129
Less current portion	(27,133)	(27,308)
Long-term debt	\$ 2,137,214	\$ 2,146,597

Senior Credit Facilities

The credit agreement governing the Senior Credit Facilities (the Senior Credit Agreement) provides that, subject to certain conditions, the Company may request additional tranches of term loans, increase commitments under the Revolving Facility or the Term Loan Facility or add one or more incremental revolving credit facility tranches (provided that the revolving credit commitments outstanding at any time have no more than three different maturity dates) in an aggregate amount not to exceed (a) \$300,000 plus (b) an unlimited amount at any time, subject to compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00 to 1.00. Availability of such additional tranches of term loans or

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revolving credit facilities and/or increased commitments is subject to, among other conditions, the absence of any default under the Senior Credit Agreement and the receipt of commitments by existing or additional financial institutions. Proceeds of the Revolving Facility, including up to \$30,000 in the form of borrowings on same-day notice, referred to as swingline loans, and up to \$50,000 in the form of letters of credits, are available to provide financing for working capital and general corporate purposes.

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

In April 2012, the Company amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80,000 of additional term loans. In April 2013, the Company again amended the Senior Credit Agreement to further reprice, and also to modify certain financial covenants under the Senior Credit Facilities. Following the April 2013 amendment, the interest rate on both the Term Loan Facility and Revolving Facility is LIBOR plus 2.50%. The Term Loan Facility remains subject to a LIBOR floor of 1.25%, and there continues to be no LIBOR floor on the Revolving Facility. In connection with the April 2013 repricing, the Senior Credit Agreement also was amended to, among other things, eliminate the financial covenant related to the consolidated cash interest coverage ratio and modify the financial covenant related to the net leverage test by maintaining the required first lien net leverage ratio at 5.35 to 1.00 for the remaining term of the Senior Credit Facilities.

In December 2014, through another amendment to the Senior Credit Agreement, the Company borrowed an additional \$160,000 under an incremental term loan facility on identical terms and having the same rights and obligations as the existing term loans under the Senior Credit Agreement.

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

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

The Company generally may voluntarily prepay outstanding loans under the Senior Credit Facilities at any time without premium or penalty other than breakage costs with respect to LIBOR loans.

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

Certain of the Company's United States wholly-owned restricted subsidiaries, together with the Company, are co-borrowers and jointly and severally liable for all obligations under the Senior Credit Facilities. Such obligations of the co-borrowers are unconditionally guaranteed by Beagle Intermediate Holdings, Inc. (a direct wholly-owned subsidiary of Parent), the Company and each of its existing and future United States wholly-owned restricted subsidiaries (with certain exceptions including immaterial subsidiaries). These obligations are secured by a perfected security interest in substantially all of the assets of the co-borrowers and guarantors now owned or later acquired, including a pledge of all of the capital stock of the Company and its United States wholly-owned restricted subsidiaries and 65% of the capital stock of its foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

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The Senior Credit Agreement requires the Company to comply with a maximum first lien net leverage ratio financial maintenance covenant, to be tested on the last day of each fiscal quarter. A breach of the first lien net leverage ratio covenant is subject to certain equity cure rights. In addition, the Senior Credit Facilities contain a number of negative covenants that, among other things and subject to certain exceptions, restrict the Company's ability and the ability of its subsidiaries to:

incur additional indebtedness or guarantees;

incur liens;

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of subsidiaries;

pay dividends on capital stock or redeem, repurchase or retire capital stock of the Company or any restricted subsidiary, subject to customary covenants, including compliance with leverage ratios and subject to limitation based on net income generated during the term of the Senior Credit Agreement;

alter the business of the Company;

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with affiliates; and

enter into agreements limiting dividends and distributions of certain subsidiaries.

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

As of June 30, 2015, the Company believes it was in compliance with all of the applicable debt covenants under the Senior Credit Agreement.

Senior Notes

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

The Company may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at any time on or after December 31, 2015 at the applicable redemption price, plus accrued and unpaid interest. At any time prior to December 31, 2015, the Company may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at its option and on one or more occasions, at a redemption price equal to 100% of the principal amount, plus an applicable premium and accrued and unpaid interest. If the Company experiences specific kinds of changes in control, it must offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of the Company's existing and future indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The Company's obligations under the Senior Notes are guaranteed on a senior basis by all of its existing and subsequently acquired or organized wholly-owned United States restricted subsidiaries that guarantee the Senior Credit Facilities or its other indebtedness or indebtedness of any affiliate guarantor. The Senior Notes and the related guarantees are effectively subordinated to the Company's existing and future secured obligations and that of its affiliate guarantors to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all existing and future indebtedness and other liabilities of any of the Company's subsidiaries that do not guarantee the Senior Notes.

The indentures governing the Senior Notes (the "Indentures") contain customary covenants that restrict the ability of the Company and its restricted subsidiaries to:

pay dividends on our capital stock or redeem, repurchase or retire our capital stock, subject to customary covenants, including compliance with a fixed charge coverage ratio and subject to limitation based on net income generated during the term of the Indentures;

incur additional indebtedness or issue certain capital stock;

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

incur certain liens;

make investments, loans, advances and acquisitions;

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

prepay subordinated debt;

engage in certain transactions with affiliates; and

enter into agreements restricting the subsidiaries' ability to pay dividends.

The Indentures also contain certain customary affirmative covenants and events of default.

As of June 30, 2015, the Company believes it was in compliance with all of the applicable debt covenants under the Senior Notes.

Obligation Under Data Sublicense Agreement

In 2009 and 2010, the Company acquired certain additional rights to specified uses of its data from the former owner of the Company's business in order to broaden the Company's ability to pursue business intelligence and data analytics solutions for payers and providers. The Company previously licensed exclusive rights to this data to the former owner of the Company's business. In connection with these data rights acquisitions, the Company recorded amortizable intangible assets and corresponding obligations at inception based on the present value of the scheduled annual payments through 2018, which totaled \$65,000 in the aggregate (approximately \$21,400 remained payable at June 30, 2015). In connection with the Merger, the Company was required to adjust this obligation to its fair value.

Other

From time to time, the Company enters into deferred financing arrangements with certain vendors. The obligations under such arrangements are generally recorded at the present value of the scheduled payments. Such future payments totaled approximately \$6,900 at June 30, 2015.

5. Interest Rate Swap

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. During the six months ended June 30, 2015, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt pursuant to the Term Loan Facility. As of June 30, 2015, the Company had three outstanding interest rate derivatives with a combined notional amount of \$640,000 that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is

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recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$2,573 will be reclassified as an increase to interest expense.

The following table summarizes the fair value of the Company's derivative instruments at June 30, 2015 and December 31, 2014:

Fair Values of Derivative Instruments

	Balance Sheet Location	Asset (Liability) Derivatives	
		June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:			
Interest rate swaps	Other assets	\$	\$ 222
Interest rate swaps	Accrued expenses	(1,922)	(2,567)
Interest rate swaps	Other long-term liabilities	(1,190)	
		\$ (3,112)	\$ (2,345)

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

The effect of the derivative instruments on the accompanying unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2015 and 2014, respectively, is summarized in the following table:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Derivatives in Cash Flow Hedging Relationships				
Gain/ (loss) related to effective portion of derivative recognized in other comprehensive loss	\$ (459)	\$ (1,897)	\$ (2,050)	\$ (2,745)
Gain/ (loss) related to effective portion of derivative reclassified from accumulated other comprehensive loss to interest expense	\$ (645)	\$ (645)	\$ (1,283)	\$ (1,283)

Credit Risk-related Contingent Features

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

As of June 30, 2015, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3,814. If the Company had breached any of these provisions at June 30, 2015, the Company could have been required to settle its obligations under the agreements at this termination value. The Company does not offset any derivative instruments and the derivative instruments are not subject to collateral posting requirements.

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****6. Fair Value Measurements*****Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The Company's assets and liabilities that are measured at fair value on a recurring basis consist of the Company's derivative financial instruments and contingent consideration associated with business combinations. The table below summarizes these items as of June 30, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

Description	Balance at June 30, 2015	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps	\$ (3,112)	\$	\$ (3,112)	\$
Contingent consideration obligations	(9,310)			(9,310)
Total	\$ (12,422)	\$	\$ (3,112)	\$ (9,310)

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

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements and measures the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs to evaluate the likelihood of default by itself and by its counterparties. As of June 30, 2015, the Company determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The valuation of the Company's contingent consideration obligations is estimated as the present value of total expected contingent consideration payments which are determined using a Monte Carlo simulation. This analysis reflects the contractual terms of the purchase agreements and utilizes assumptions with regard to future sales, probabilities of achieving such future sales, the likelihood and timing of expected payments and a discount rate. Significant increases with respect to assumptions as to future sales and probabilities of achieving such future sales would result in a higher fair value measurement, while an increase in the discount rate would result in a lower fair value measurement.

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

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	Three Months Ended		Six Months Ended	
	June 30,		Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$ (7,460)	\$ (13,459)	\$ (17,486)	\$ (5,484)
Adjustment of provisional amounts			(50)	
Issuance of contingent consideration				(6,015)
Settlement of contingent consideration			8,061	
Total changes included in contingent consideration	(1,850)	290	165	(1,670)
Balance at end of period	\$ (9,310)	\$ (13,169)	\$ (9,310)	\$ (13,169)

During April 2015, the Company exercised its option to terminate all future obligations under the Vieosoft, Inc. (Vieosoft) stock purchase agreement in exchange for a cash payment of \$4,650 to the former stockholders of Vieosoft. This termination payment was not accepted and the former stockholders of Vieosoft have filed a lawsuit against the Company. The Company has reflected a liability of \$4,650 within accrued expenses on the accompanying condensed consolidated balance sheet as of June 30, 2015.

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)*****Assets and Liabilities Measured at Fair Value on a Non-recurring Basis***

During the six months ended June 30, 2014, the Company's technology-enabled services segment received notice that its existing contract with a customer would not be renewed in full upon its expiration. As a result, the Company abandoned a customer related project that was under development and assessed the recoverability of the net assets included in the relevant asset group. The Company recognized an impairment charge, measured as of April 30, 2014, to write off the abandoned project and to adjust the carrying value of the asset group to its fair value. This latter impairment charge was generally allocated to the affected long-lived assets on a pro rata basis. Additionally, the Company abandoned certain network solutions and technology-enabled services segment development projects in connection with execution of certain strategic initiatives during the six months ended June 30, 2014.

The following table summarizes the affected financial statement captions, the allocation of the impairment charges among those captions and provides certain quantitative information associated with the required fair value measurements for the six months ended June 30, 2014.

	Range of Inputs	Fair Value	Impairment
<i>Long-lived assets to be held and used (Level 3)</i>			
Relevant asset group	N/A	\$ 13,066	\$ 73,220
Balance sheet account:			
Customer relationships	N/A	N/A	\$ 72,290
Property and equipment	N/A	N/A	\$ 930
Unobservable inputs (discounted cash flow method):			
Probability of contract extension	80%	N/A	N/A
Probability of new contract execution	20%-90%	N/A	N/A
Expected annual revenue range	\$3,080-\$3,590	N/A	N/A
Risk free interest rate	1.6%	N/A	N/A
<i>Long-lived assets to be disposed of</i>			
Property and Equipment	N/A	\$	\$ 3,040

Assets and Liabilities Measured at Fair Value upon Initial Recognition

The carrying amount and the estimated fair value of financial instruments held by the Company as of June 30, 2015 were:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 160,376	\$ 160,376
Accounts receivable	\$ 234,140	\$ 234,140
Senior Credit Facilities (Level 1)	\$ 1,417,752	\$ 1,413,811
Senior Notes (Level 2)	\$ 750,000	\$ 812,344

The carrying amounts of cash equivalents and accounts receivable approximate fair value because of their short-term maturities. The fair value of long-term debt is based upon market quotes and trades by investors in partial interests of these instruments.

7. Legal Proceedings

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

8. Income Taxes

In May 2015, the state of Tennessee enacted the Tennessee Revenue Modernization Act, which changed the manner in which the Company's Tennessee apportionment is determined. This change in the Company's Tennessee apportionment resulted in a change in the Company's effective state income tax rate.

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Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

In January 2014, the Company effected a change in the tax status of EBS Master LLC (EBS Master) from a partnership to a corporation. Prior to the tax status change, the Company recognized a deferred tax liability for the difference in the book and tax basis of its investment in EBS Master (i.e. outside basis). Following the tax status change, the Company's deferred tax balances reflect the differences in the book and tax bases of the individual assets and liabilities included in the corporation. In addition, as a result of the change in tax status, the Company was required to revise the apportionment of its income taxes among various state taxing jurisdictions.

After giving effect to the changes in the Company's Tennessee apportionment and tax status and other items, income taxes for the six months ended June 30, 2015 amounted to an income tax benefit of \$21,987 and an effective tax rate of 111.0%. The income tax benefit for the six months ended June 30, 2014, was \$48,226 and resulted in an effective tax rate of 43.5%.

9. Tax Receivable Agreement Obligation to Related Parties

The Company is a party to tax receivable agreements which obligate it to make payments to certain of its current and former owners, including affiliates of Blackstone, Hellman & Friedman and certain members of management (collectively, the TRA Members), equal to 85% of the applicable cash savings that the Company realizes as a result of tax attributes arising from certain previous transactions, including the Merger. The Company will retain the benefit of the remaining 15% of these tax savings. The Company expects cumulative remaining payments under the tax receivable agreements of approximately \$350,383. \$173,724 of this amount, which reflected the initial fair value of the tax receivable agreement obligations plus recognized accretion, was reflected as an obligation on the accompanying unaudited condensed consolidated balance sheet at June 30, 2015.

10. Segment Reporting

Management views the Company's operating results in three reportable segments: (a) software and analytics, (b) network solutions and (c) technology-enabled services. Listed below are the results of operations for each of the reportable segments. This information is reflected in the manner utilized by management to make operating decisions, assess performance and allocate resources. Such amounts include allocations of corporate shared services functions that are essential to the core operations of the reportable segments such as information technology, operations and product development functions. Segment assets and related depreciation expenses are not presented to management for purposes of operational decision making, and therefore are not included in the accompanying tables. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the notes to the Company's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC.

Software and Analytics

The software and analytics segment provides revenue cycle technology, revenue optimization, payment integrity, electronic payment, data and analytic and consumer engagement solutions.

Network Solutions

The network solutions segment provides financial and administrative information exchange solutions for medical, dental and pharmacy claims management and other standardized healthcare transactions, including clinical information exchange capabilities.

Technology-enabled Services

The technology-enabled services segment provides payment and communication, eligibility and enrollment, healthcare consulting, payment automation and pharmacy benefits administration solutions.

Corporate and Eliminations

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

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Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

Corporate and eliminations includes pass-through postage costs, management, administrative and certain other shared corporate services functions such as legal, finance, human resources and marketing, as well as eliminations to remove inter-segment revenue and expenses. These administrative costs are excluded from the adjusted EBITDA measure for each respective operating segment.

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)**

The revenue and adjusted EBITDA for the operating segments are as follows:

	Three Months Ended June 30, 2015				Consolidated
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	
Revenue from external customers:					
Solutions revenue	\$ 67,049	\$ 92,691	\$ 110,420	\$ (6,355)	\$ 263,805
Postage revenue				90,996	90,996
Inter-segment revenue	255	70	1,168	(1,493)	
Net revenue	\$ 67,304	\$ 92,761	\$ 111,588	\$ 83,148	\$ 354,801
Income (loss) before income taxes	22,079	46,797	40,602	(117,497)	(8,019)
Interest expense				38,135	38,135
Depreciation and amortization				49,515	49,515
EBITDA	22,079	46,797	40,602	(29,847)	79,631
Equity compensation	310	141	199	1,348	1,998
Acquisition accounting adjustments	324		160		484
Acquisition-related costs	16	32	336	2,001	2,385
Transaction-related costs and advisory fees				1,662	1,662
Strategic initiatives, duplicative and transition costs	630	300	348	1,000	2,278
Severance costs	104	451	157	1,302	2,014
Accretion				3,818	3,818
Impairment of long-lived assets		60	111	(49)	122
Contingent consideration		1,463	627	(240)	1,850
Other non-routine, net	291	296	205	856	1,648
EBITDA Adjustments	1,675	2,743	2,143	11,698	18,259
Adjusted EBITDA	\$ 23,754	\$ 49,540	\$ 42,745	\$ (18,149)	\$ 97,890

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

	Three Months Ended June 30, 2014				Consolidated
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	
Revenue from external customers:					
Solutions revenue	\$ 61,888	\$ 84,351	\$ 108,916	\$ (6,078)	\$ 249,077
Postage revenue				87,081	87,081
Inter-segment revenue	305	104	2,078	(2,487)	
Net revenue	\$ 62,193	\$ 84,455	\$ 110,994	\$ 78,516	\$ 336,158
Income (loss) before income taxes	22,295	40,114	(36,679)	(112,216)	(86,486)
Interest expense				36,543	36,543
Depreciation and amortization				46,630	46,630
EBITDA	22,295	40,114	(36,679)	(29,043)	(3,313)
Equity compensation	160	141	284	1,205	1,790
Acquisition accounting adjustments	31		551	(358)	224
Acquisition-related costs	16	10	12	1,651	1,689
Transaction-related costs and advisory fees				1,615	1,615
Strategic initiatives, duplicative and transition costs	66	17	34	4,190	4,307
Severance costs	30	80	321	542	973
Accretion				4,844	4,844
Impairment of long-lived assets	468	2,031	73,936	73	76,508
Contingent consideration		(290)			(290)
Other non-routine, net	90	166	2,557	(829)	1,984
EBITDA Adjustments	861	2,155	77,695	12,933	93,644
Adjusted EBITDA	\$ 23,156	\$ 42,269	\$ 41,016	\$ (16,110)	\$ 90,331

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

	Six Months Ended June 30, 2015				Consolidated
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	
Revenue from external customers:					
Solutions revenue	\$ 132,918	\$ 182,900	\$ 219,170	\$ (12,772)	\$ 522,216
Postage revenue				178,280	178,280
Inter-segment revenue	510	122	2,024	(2,656)	
Net revenue	\$ 133,428	\$ 183,022	\$ 221,194	\$ 162,852	\$ 700,496
Income (loss) before income taxes	40,938	93,518	77,045	(231,310)	(19,809)
Interest expense				76,143	76,143
Depreciation and amortization				97,629	97,629
EBITDA	40,938	93,518	77,045	(57,538)	153,963
Equity compensation	684	256	347	2,896	4,183
Acquisition accounting adjustments	606	2	318		926
Acquisition-related costs	33	52	828	2,241	3,154
Transaction-related costs and advisory fees				3,179	3,179
Strategic initiatives, duplicative and transition costs	704	354	371	1,806	3,235
Severance costs	328	310	2,164	1,316	4,118
Accretion				8,797	8,797
Impairment of long-lived assets	107	844	264	(254)	961
Contingent consideration		(66)	41	(140)	(165)
Other non-routine, net	415	391	536	1,758	3,100
EBITDA Adjustments	2,877	2,143	4,869	21,599	31,488
Adjusted EBITDA	\$ 43,815	\$ 95,661	\$ 81,914	\$ (35,939)	\$ 185,451

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

	Six Months Ended June 30, 2014				Consolidated
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	
Revenue from external customers:					
Solutions revenue	\$ 116,171	\$ 167,109	\$ 213,350	\$ (11,419)	\$ 485,211
Postage revenue				170,154	170,154
Inter-segment revenue	760	181	3,812	(4,753)	
Net revenue	\$ 116,931	\$ 167,290	\$ 217,162	\$ 153,982	\$ 655,365
Income (loss) before income taxes	37,387	78,671	(5,430)	(221,370)	(110,742)
Interest expense				73,106	73,106
Depreciation and amortization				93,093	93,093
EBITDA	37,387	78,671	(5,430)	(55,171)	55,457
Equity compensation	316	298	562	2,506	3,682
Acquisition accounting adjustments	76	12	447		535
Acquisition-related costs	29	38	989	2,498	3,554
Transaction-related costs and advisory fees				3,115	3,115
Strategic initiatives, duplicative and transition costs	87	136	63	9,067	9,353
Severance costs	1,143	359	883	1,336	3,721
Accretion				4,768	4,768
Impairment of long-lived assets	534	2,613	76,376	53	79,576
Contingent consideration		1,169	452	49	1,670
Other non-routine, net	367	222	2,903	(287)	3,205
EBITDA Adjustments	2,552	4,847	82,675	23,105	113,179
Adjusted EBITDA	\$ 39,939	\$ 83,518	\$ 77,245	\$ (32,066)	\$ 168,636

11. Accumulated Other Comprehensive Income (Loss)

The following is a summary of the accumulated other comprehensive income (loss) balances, net of taxes, as of and for the six months ended June 30, 2015.

	Foreign Currency Translation Adjustment	Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2015	\$ (483)	\$ (1,472)	\$ (1,955)
Change associated with foreign currency translation	(184)		(184)
Change associated with current period hedging		832	832
Reclassification into earnings		(1,283)	(1,283)

Balance at June 30, 2015	\$ (667)	\$ (1,923)	\$ (2,590)
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12. Supplemental Condensed Consolidating Financial Information

In lieu of providing separate annual and interim financial statements for each guarantor of the Senior Notes, Regulation S-X provides companies, if certain criteria are satisfied, with the option to instead provide condensed consolidating financial information for its issuers, guarantors and non-guarantors. In the case of the Company, the applicable criteria include the following: (i) the Senior Notes are fully and unconditionally guaranteed on a joint and several basis (subject to customary release provisions), (ii) each of the guarantors of the Senior Notes is a direct or indirect 100% owned subsidiary of the Company and (iii) any non-guarantors are considered minor as that term is defined in Regulation S-X. Because each of these criteria has been satisfied by the Company, condensed consolidating balance sheets as of June 30, 2015 and December 31, 2014, condensed consolidating statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014, respectively, and condensed consolidating statements of cash flows for the six months ended June 30, 2015 and 2014, respectively, for the Company, segregating the issuer, the subsidiary guarantors and consolidating adjustments, are reflected below. Prior period amounts have been reclassified to conform to the current year presentation.

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

Condensed Consolidating Balance Sheet

	As of June 30, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 741	\$ 159,635	\$	\$ 160,376
Accounts receivable, net of allowance for doubtful accounts		234,140		234,140
Deferred income tax assets		14,055		14,055
Prepaid expenses and other current assets	4,555	25,384		29,939
Total current assets	5,296	433,214		438,510
Property and equipment, net	5	222,387		222,392
Due from affiliates		235,147	(235,147)	
Investment in consolidated subsidiaries	1,784,204		(1,784,204)	
Goodwill		1,697,891		1,697,891
Intangible assets, net	129,000	1,355,772		1,484,772
Other assets, net	179,699	16,292	(177,142)	18,849
Total assets	\$ 2,098,204	\$ 3,960,703	\$ (2,196,493)	\$ 3,862,414
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$	\$ 21,896	\$	\$ 21,896
Accrued expenses	5,389	191,105		196,494
Deferred revenues		10,636		10,636
Current portion of long-term debt	6,709	20,424		27,133
Total current liabilities	12,098	244,061		256,159
Due to affiliates		235,147	(235,147)	
Long-term debt, excluding current portion	772,075	1,365,139		2,137,214
Deferred income tax liabilities		555,630	(177,142)	378,488
Tax receivable agreement obligations to related parties	172,780			172,780
Other long-term liabilities	1,189	11,669		12,858
Commitments and contingencies				
Equity	904,915	1,784,204	(1,784,204)	904,915
Total liabilities and equity	\$ 2,098,204	\$ 3,960,703	\$ (2,196,493)	\$ 3,862,414

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

Condensed Consolidating Balance Sheet

	As of December 31, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 796	\$ 81,510	\$	\$ 82,306
Accounts receivable, net of allowance for doubtful accounts		233,791		233,791
Deferred income tax assets		18,893		18,893
Prepaid expenses and other current assets	2,267	26,979		29,246
Total current assets	3,063	361,173		364,236
Property and equipment, net	7	244,146		244,153
Due from affiliates		180,610	(180,610)	
Investment in subsidiaries	1,740,062		(1,740,062)	
Goodwill		1,702,569		1,702,569
Intangible assets, net	133,500	1,405,894		1,539,394
Other assets, net	152,689	17,270	(149,647)	20,312
Total assets	\$ 2,029,321	\$ 3,911,662	\$ (2,070,319)	\$ 3,870,664
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$	\$ 16,399	\$	\$ 16,399
Accrued expenses	4,935	170,271		175,206
Deferred revenues		10,518		10,518
Current portion of long-term debt	6,709	20,599		27,308
Total current liabilities	11,644	217,787		229,431
Due to affiliates		180,610	(180,610)	
Long-term debt, excluding current portion	771,019	1,375,578		2,146,597
Deferred income tax liabilities		562,874	(149,647)	413,227
Tax receivable agreement obligations to related parties	163,983			163,983
Other long-term liabilities		15,361		15,361
Commitments and contingencies				
Total equity	902,065	1,740,062	(1,740,062)	902,065
Total liabilities and equity	\$ 2,029,321	\$ 3,911,662	\$ (2,070,319)	\$ 3,870,664

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

Condensed Consolidating Statement of Operations

	Three Months Ended June 30, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:				
Solutions revenue	\$	\$ 263,805	\$	\$ 263,805
Postage revenue		90,996		90,996
Total revenue		354,801		354,801
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		121,288		121,288
Development and engineering		10,123		10,123
Sales, marketing, general and administrative	2,803	44,170		46,973
Customer postage		90,996		90,996
Depreciation and amortization	2,251	47,264		49,515
Accretion	3,818			3,818
Impairment of long-lived assets		122		122
Operating income (loss)	(8,872)	40,838		31,966
Equity in earnings of consolidated subsidiaries	(26,575)		26,575	
Interest expense, net	23,308	14,827		38,135
Contingent consideration		1,850		1,850
Income (loss) before income tax provision (benefit)	(5,605)	24,161	(26,575)	(8,019)
Income tax provision (benefit)	(13,533)	(2,414)		(15,947)
Net income (loss)	\$ 7,928	\$ 26,575	\$ (26,575)	\$ 7,928

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

Condensed Consolidating Statement of Operations

	Three Months Ended June 30, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:				
Solutions revenue	\$	\$ 249,077	\$	\$ 249,077
Postage revenue		87,081		87,081
Total revenue		336,158		336,158
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		115,499		115,499
Development and engineering		7,062		7,062
Sales, marketing, general and administrative	5,472	47,266		52,738
Customer postage		87,081		87,081
Depreciation and amortization	2,251	44,379		46,630
Accretion	4,844			4,844
Impairment of long-lived assets		76,508		76,508
Operating income (loss)	(12,567)	(41,637)		(54,204)
Equity in earnings of consolidated subsidiaries	39,723		(39,723)	
Interest expense, net	23,417	13,126		36,543
Contingent consideration		(290)		(290)
Other	(114)	(3,857)		(3,971)
Income (loss) before income tax provision (benefit)	(75,593)	(50,616)	39,723	(86,486)
Income tax provision (benefit)	(16,066)	(10,893)		(26,959)
Net income (loss)	\$ (59,527)	\$ (39,723)	\$ 39,723	\$ (59,527)

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

Condensed Consolidating Statement of Operations

	Six Months Ended June 30, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:				
Solutions revenue	\$	\$ 522,216	\$	\$ 522,216
Postage revenue		178,280		178,280
Total revenue		700,496		700,496
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		242,474		242,474
Development and engineering		20,949		20,949
Sales, marketing, general and administrative	5,854	89,383		95,237
Customer postage		178,280		178,280
Depreciation and amortization	4,501	93,128		97,629
Accretion	8,797			8,797
Impairment of long-lived assets		961		961
Operating income (loss)	(19,152)	75,321		56,169
Equity in earnings of consolidated subsidiaries	(40,741)		40,741	
Interest expense, net	46,589	29,554		76,143
Contingent consideration		(165)		(165)
Income (loss) before income tax provision (benefit)	(25,000)	45,932	(40,741)	(19,809)
Income tax provision (benefit)	(27,178)	5,191		(21,987)
Net income (loss)	\$ 2,178	\$ 40,741	\$ (40,741)	\$ 2,178

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

Condensed Consolidating Statement of Operations

	Six Months Ended June 30, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue				
Solutions revenue	\$	\$ 485,211	\$	\$ 485,211
Postage revenue		170,154		170,154
Total revenue		655,365		655,365
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		227,832		227,832
Development and engineering		15,968		15,968
Sales, marketing, general and administrative	12,488	91,423		103,911
Customer postage		170,154		170,154
Depreciation and amortization	4,502	88,591		93,093
Accretion	4,768			4,768
Impairment of long-lived assets		79,576		79,576
Operating income (loss)	(21,758)	(18,179)		(39,937)
Equity in earnings of consolidated subsidiaries	61,129		(61,129)	
Interest expense, net	46,807	26,299		73,106
Contingent consideration		1,670		1,670
Other	(114)	(3,857)		(3,971)
Income (loss) before income tax provision (benefit)	(129,580)	(42,291)	61,129	(110,742)
Income tax provision (benefit)	(67,064)	18,838		(48,226)
Net income (loss)	\$ (62,516)	\$ (61,129)	\$ 61,129	\$ (62,516)

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

		Three Months Ended June 30, 2015		
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ 7,928	\$ 26,575	\$ (26,575)	\$ 7,928
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	109			109
Foreign currency translation adjustment		92		92
Equity in other comprehensive earnings	92		(92)	
Other comprehensive income (loss)	201	92	(92)	201
Total comprehensive income (loss)	\$ 8,129	\$ 26,667	\$ (26,667)	\$ 8,129

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

	Three Months Ended June 30, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ (59,527)	\$ (39,723)	\$ 39,723	\$ (59,527)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(735)			(735)
Foreign currency translation adjustment		100		100
Equity in other comprehensive earnings	100		(100)	
Other comprehensive income (loss)	(635)	100	(100)	(635)
Total comprehensive income (loss)	\$ (60,162)	\$ (39,623)	\$ 39,623	\$ (60,162)

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited and amounts in thousands, except share and per share amounts)****Condensed Consolidating Statement of Comprehensive Income (Loss)**

	Six Months Ended June 30, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ 2,178	\$ 40,741	\$ (40,741)	\$ 2,178
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(451)			(451)
Foreign currency translation adjustment		(184)		(184)
Equity in other comprehensive earnings	(184)		184	
Other comprehensive income (loss)	(635)	(184)	184	(635)
Total comprehensive income (loss)	\$ 1,543	\$ 40,557	\$ (40,557)	\$ 1,543

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

Condensed Consolidating Statement of Comprehensive Income (Loss)

	Six Months Ended June 30, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ (62,516)	\$ (61,129)	\$ 61,129	\$ (62,516)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(859)			(859)
Foreign currency translation adjustment		27		27
Equity in other comprehensive earnings	27		(27)	
Other comprehensive income (loss)	(832)	27	(27)	(832)
Total comprehensive income (loss)	\$ (63,348)	\$ (61,102)	\$ 61,102	\$ (63,348)

Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

Condensed Consolidating Statement of Cash Flows

	Six Months Ended June 30, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities				
Net income (loss)	\$ 2,178	\$ 40,741	\$ (40,741)	\$ 2,178
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	4,501	93,128		97,629
Accretion	8,797			8,797
Equity compensation	156	4,027		4,183
Deferred income tax expense (benefit)	(27,178)	3,965		(23,213)
Amortization of debt discount and issuance costs	1,452	3,127		4,579
Contingent consideration		(165)		(165)
Impairment of long lived assets		961		961
Equity in earnings of consolidated subsidiaries	(40,741)		40,741	
Changes in operating assets and liabilities:				
Accounts receivable		(1,420)		(1,420)
Prepaid expenses and other	(2,288)	1,204		(1,084)
Accounts payable		6,293		6,293
Accrued expenses, deferred revenue, and other liabilities	918	23,942		24,860
Due to/from affiliates	54,537	(54,537)		
Net cash provided (used in) by operating activities	2,332	121,266		123,598
Investing activities				
Purchases of property and equipment		(24,654)		(24,654)
Payments for acquisitions, net of cash acquired		824		824
Other		(90)		(90)
Investment in subsidiary	627		(627)	
Net cash provided by (used in) investing activities	627	(23,920)	(627)	(23,920)
Financing activities				
Distributions from (to) Emdeon Inc. net		(627)	627	
Payments on Term Loan Facility	(138)	(7,102)		(7,240)
Repayment of deferred financing arrangements		(5,939)		(5,939)
Repurchase of Parent common stock	(3,681)			(3,681)
Capital contribution from Parent	805			805
Payment of Contingent Consideration		(5,553)		(5,553)
Net cash provided by (used in) financing activities	(3,014)	(19,221)	627	(21,608)
Net decrease in cash and cash equivalents	(55)	78,125		78,070
Cash and cash equivalents at beginning of period	796	81,510		82,306

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Cash and cash equivalents at end of period	\$	741	\$	159,635	\$	160,376
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Table of Contents**Emdeon Inc.****Notes to Condensed Consolidated Financial Statements**

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

Condensed Consolidating Statement of Cash Flows

	Six Months Ended June 30, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities				
Net income (loss)	\$ (62,516)	\$ (61,129)	\$ 61,129	\$ (62,516)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	4,502	88,591		93,093
Accretion expense	4,768			4,768
Equity compensation expense	182	3,500		3,682
Deferred income tax expense (benefit)	(67,669)	18,974		(48,695)
Amortization of debt discount and issuance costs	1,319	2,524		3,843
Contingent consideration		1,670		1,670
Impairment of long lived assets		79,576		79,576
Equity in earnings of consolidated subsidiaries	61,129		(61,129)	
Other		(2,029)		(2,029)
Changes in operating assets and liabilities:				
Accounts receivable		(25,648)		(25,648)
Prepaid expenses and other	(1,496)	(5,755)		(7,251)
Accounts payable		1,237		1,237
Accrued expenses, deferred revenue, and other liabilities	(541)	(7,356)		(7,897)
Due to/from affiliates	57,599	(57,599)		
Net cash provided by (used in) operating activities	(2,723)	36,556		33,833
Investing activities				
Purchases of property and equipment		(25,952)		(25,952)
Payments for acquisitions, net of cash acquired		(779)		(779)
Other	36			36
Investment in subsidiaries, net	(332)		332	
Net cash provided by (used in) investing activities	(296)	(26,731)	332	(26,695)
Financing activities				
Distributions from (to) Emdeon Inc., net		332	(332)	
Payments on Term Loan Facility	(162)	(7,507)		(7,669)
Payment of debt assumed from acquisition		(1,877)		(1,877)
Repayment of deferred financing arrangements		(4,176)		(4,176)
Repurchase of Parent common stock	(815)	(54)		(869)
Capital contribution from Parent	2,092			2,092
Net cash provided by (used in) financing activities	1,115	(13,282)	(332)	(12,499)
Net increase (decrease) in cash and cash equivalents	(1,904)	(3,457)		(5,361)

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Cash and cash equivalents at beginning of period	2,794	73,744	76,538
Cash and cash equivalents at end of period	\$ 890	\$ 70,287	\$ 71,177

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Emdeon Inc.

Notes to Condensed Consolidated Financial Statements

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

13. Subsequent Event

In July 2015, the Company executed a definitive agreement to acquire Altegra Health, Inc. (Altegra), a national provider of technology and intervention platforms that combine data aggregation and analytics with unique member engagement and reporting capabilities to achieve actionable insights and improved management for value-based healthcare. The Company expects to acquire Altegra for approximately \$910,000 in cash, subject to certain adjustments, and has obtained debt and equity financing commitments to support the acquisition. The acquisition is subject to customary closing conditions, including expiration or early termination of the waiting period under the Hart-Scott-Rodino Act, and is expected to close in the third quarter of 2015.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes in Part I, Item 1 of this Quarterly Report on Form 10-Q (Quarterly Report), together with the risk factors contained in the section titled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 (Form 10-K) on file with the Securities and Exchange Commission (SEC).

Unless stated otherwise or the context otherwise requires, references in this Quarterly Report to we , us , our , Emdeon and the Company refer to Emdeon Inc. and its subsidiaries.

Forward-Looking Statements

This Quarterly Report includes certain forward-looking statements within the meaning of the federal securities laws regarding, among other things, our or our management's intentions, plans, beliefs, expectations or predictions of future events, which are considered forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as may, will, should, believe, expect, anticipate, intend, plan, estimate or similar expressions. Forward-looking statements are based upon assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read this Quarterly Report, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions, including those described under the heading Risk Factors in our Form 10-K. Although we believe that these forward-looking statements are based upon reasonable assumptions, you should be aware that many factors, including those described under the heading Risk Factors in our Form 10-K, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

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

Overview

We are a leading provider of software and analytics, network solutions and technology-enabled services that optimize communications, payments and actionable insights by leveraging our intelligent healthcare platform, which includes one of the largest financial and administrative networks in the United States healthcare system. Our platform and solutions integrate and automate key functions of our payer, provider and pharmacy customers throughout the patient encounter, from consumer engagement and pre-care eligibility and enrollment through payment. By using our comprehensive suite of solutions, our customers are able to improve efficiency, reduce costs, increase cash flow and more efficiently manage complex workflows. Customers receive additional synergistic and enhanced benefits when using multiple Emdeon solutions. Emdeon's Intelligent Healthcare Network , which reaches 700,000 physicians, 105,000 dentists, 60,000 pharmacies, 5,000 hospitals, 600 vendors, 450 laboratories and 1,200 government and commercial payers and processed approximately 8.1 billion transactions in 2014, allows us to bring actionable data, analytics and insights to our customers.

We deliver our solutions and operate our business in three reportable segments: (i) software and analytics, which provides payment and reimbursement optimization and decision support solutions; (ii) network solutions, which leverages our health information network to optimize information exchange and workflows among healthcare system participants; and (iii) technology-enabled services, which provides payment and communication, workflow, advisory and other administrative solutions to optimize payment and reimbursement efficiencies. Through our software and analytics segment, we provide revenue cycle technology, revenue optimization, payment integrity, electronic payment, data and analytic and consumer engagement solutions. Through our network solutions segment, we provide financial and administrative information exchange solutions for medical, dental and pharmacy claims management and other standardized healthcare transactions, including clinical information exchange capabilities. Through our technology-enabled services segment, we provide payment and communication, eligibility and enrollment, healthcare consulting, payment automation and pharmacy benefits

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administration solutions. We generally provide our solutions to payer, provider and pharmacy customers, including commercial insurance companies, third party administrators, governmental payers, self-insured employers, hospitals, physician practices, laboratories, pharmacies, pharmacy benefit management companies and government agencies.

There are a number of company-specific initiatives and industry trends that may affect our business volumes, revenues, cost of operations and margins. As part of our strategy, we encourage our customers to migrate from paper-based claim, communication, payment and other transaction processing to electronic, automated processing in order to improve efficiency. Our business is aligned with our customers to support this transition, and as they migrate from paper-based processing to electronic processing, even though our revenues for an applicable customer generally will decline, our margins and profitability will typically increase.

Part of our strategy also includes the development and introduction of new and updated solutions. Our new and updated solutions are likely to require us to incur development and engineering expenditures, both operating and capital, and related sales and marketing costs at increased levels in order to successfully develop and achieve market acceptance of such solutions. We also may acquire, or enter into agreements with third parties to assist us in providing, new solutions. For example, we offer our electronic payment solutions through banks or vendors who contract with banks and other financial service firms. The costs of these initiatives or the failure to achieve broad penetration in target markets with respect to new or updated solutions may negatively affect our results of operations, margins and cash flow. Because newly introduced solutions generally will have lower margins initially as compared to our existing and more mature solutions, our margins and margin growth may be adversely affected on a percentage basis until these new solutions achieve scale and maturity. In addition, we continue to improve the scalability and performance of our network and platform. Any improvements in our current network or platform, or the development of new networks or platforms, including those leveraging cloud-based environments, may result in more operating costs and less capital expenditures as compared to prior periods.

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

We also expect to continue to be affected by general economic, regulatory and demographic factors affecting the healthcare industry. Significant changes in regulatory schemes, such as the updated Health Insurance Portability and Accountability Act of 1996, American Recovery and Reinvestment Act of 2009, the Patient Protection and Affordable Care Act (ACA) and other federal healthcare policy initiatives, impact our customers' healthcare activities. In particular, we believe the ACA has significantly affected the regulatory environment in which we and our customers operate by changing how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced federal healthcare program spending, increased efforts to link federal healthcare program payments to quality and efficiency and insurance market reforms. Also, changes in federal and state reimbursement patterns and rates can impact the revenues in certain of our business lines, particularly our government program eligibility and enrollment solutions. Although we believe the ACA has resulted in an overall increase in healthcare utilization and volumes to date, we are unable to predict how providers, payers, pharmacies and other healthcare market participants will continue to respond to the various reform provisions of the ACA, and we cannot be sure that the markets for our solutions will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

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

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Recent Developments

In January 2015, we reorganized our reportable segments as software and analytics, network solutions and technology-enabled services. This discussion and analysis related to prior periods has been restated to reflect our current organizational structure.

In January 2015, in order to clarify the nature of our customer related postage activities, we created separate captions on the statement of operations within revenue and costs and expenses, respectively.

In April 2015, we exercised our option to terminate all future obligations under the Vieosoft, Inc. (Vieosoft) stock purchase agreement in exchange for a future cash payment of approximately \$4.7 million to the former stockholders of Vieosoft. This termination payment was not accepted and the former stockholders of Vieosoft have filed a lawsuit against us.

In July 2015, we executed a definitive agreement to acquire Altegra Health, Inc. (Altegra), a national provider of technology and intervention platforms that combine data aggregation and analytics with unique member engagement and reporting capabilities to achieve actionable insights and improved management for value-based healthcare. Altegra's cloud-based analytics platform and related healthcare consumer engagement capabilities will enhance Emdeon's Intelligent Healthcare Network by helping customers elevate care quality, optimize financial performance and improve the member and patient experience. We expect to acquire Altegra for approximately \$910.0 million in cash, subject to certain adjustments, and have obtained debt and equity financing commitments to support the acquisition. The acquisition is subject to customary closing conditions, including expiration or early termination of the waiting period under the Hart-Scott-Rodino Act, and is expected to close in the third quarter of 2015.

Our Revenues and Expenses

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

Cost of operations consists primarily of costs related to services we provide to customers and costs associated with the operation and maintenance of our networks. These costs primarily include materials costs related to our payment and communication solutions, rebates paid to our channel partners (net of rebates to certain customers that offset revenue) and data communications costs, all of which generally vary with our revenues and/or volumes. Cost of operations also includes personnel costs associated with production, network operations, customer support and other personnel, facilities expenses and equipment maintenance, all of which vary less directly with our revenue and/or volumes due to the fixed or semi-fixed nature of these expenses.

Rebates are paid to channel partners for electronic and other volumes delivered through our network to certain payers and can be impacted by the number of comprehensive management services agreements we execute with payers, the associated rate structure with our payer customers, the success of our direct sales efforts to providers and the extent to which direct connections to payers are developed by our channel partners. While these rebates are generally a component of our cost of operations, in cases where the channel partners are also our customers, these rebates generally are recognized as an offset to revenue.

Our data communication expense consists of telecommunication and transaction processing charges.

Our material costs relate primarily to our payment and communication solutions volumes, and consist primarily of paper and printing costs.

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

Sales, marketing, general and administrative expense consists primarily of personnel costs associated with our sales, account management and marketing functions, as well as management, administrative and other shared corporate services related to the operations of our operating segments and overall business operations.

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

Postage, which is generally billed as a pass-through cost to our customers, is the most significant cost incurred in the delivery of our payment and communication solutions. Our postage costs and related revenues increase as our payment and communication solutions volumes increase and also when the United States Postal Service (USPS) increases postage rates. Although the USPS historically has increased postage rates annually in most recent years, including in January 2014 and May 2015, the frequency and nature of such annual increases may not occur as regularly in the future.

Our depreciation and amortization expense is related to depreciation of our property and equipment, including technology assets, and amortization of intangible assets acquired and recorded in conjunction with acquisition method accounting. As a result, the amount of depreciation and amortization expense is affected by the level of our recent investment in property and equipment and the level of our recent acquisition activity.

Our interest expense consists principally of cash interest associated with our long-term debt obligations and non-cash interest associated with the amortization of borrowing costs and discounts related to debt issuance. If market interest rates on the variable portion of our long-term debt increase in the future, our interest expense may increase.

Our income taxes consist of federal and state income taxes. These amounts include current income taxes payable, as well as income taxes for which the payment is deferred to future periods and dependent on the occurrence of future events. Our income taxes are affected by the recognition of valuation allowances, our tax status and other items. For additional information, see the discussion of income taxes in the section **Significant Items Affecting Comparability-Income Taxes** .

Significant Items Affecting Comparability

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

Acquisitions and Divestitures

We actively evaluate opportunities to improve and expand our business through targeted acquisitions that are consistent with our strategy. On occasion, we also may dispose of certain components of our business that no longer fit within our overall strategy. Because of our acquisition activity, our results of operations may not be directly comparable among periods. The following summarizes our acquisition transactions since January 1, 2014 and affected segments:

Date	Business	Description	Affected Segment
February 2014	Vieosoft	Development stage enterprise	Network Solutions
July 2014	Capario, Corp. (Capario)	Technology-enabled provider of revenue cycle management solutions	Software and Analytics; Network Solutions
November 2014	Change Healthcare Corporation (Change)	Technology-enabled provider of healthcare consumer engagement solutions	Software and Analytics
December 2014	Adminisource Communications, Inc. (Adminisource)	Technology-enabled provider of payment and communication solutions	Technology-enabled Services

For certain of our acquisitions, we agreed to transfer additional consideration to the sellers of the acquired businesses in the event that specified performance measures are achieved, including Vieosoft and Change. United States generally accepted accounting principles generally require us to recognize the initial fair value of the expected amount to be paid under such contingent consideration arrangements as a component of the total consideration transferred. Subsequent changes in the fair value of the amounts expected to be paid, however, are generally required to be

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recognized as a component of net income. Such changes in fair value may occur based on changes in the expected timing or amount of payments or the effect of discounting the liability for the time value of money.

Table of Contents**Efficiency Measures**

We evaluate and implement efficiency measures and other cost savings initiatives on an ongoing basis to improve our financial and operating performance through reorganization, cost savings, productivity improvements, product development and other process improvements. For instance, we continue to evaluate measures to consolidate our data centers, operations and networks, to outsource certain information technology and operations functions and to streamline product development. The implementation of these measures often involves upfront cash costs related to severance, professional fees, contractor costs and/or capital expenditures, with the cost savings or other improvements not realized until the measures are successfully completed. Additionally, we may recognize impairment charges as a result of such initiatives.

Income Taxes

Our blended statutory federal and state income tax rate ranges from 37% to 40%. Our effective income tax rate, however, is affected by several factors, including the change in tax status of EBS Master LLC (EBS Master) from a partnership to a corporation in January 2014 and changes to the state of Tennessee tax law in May 2015. The following table and subsequent commentary reconciles our federal statutory rate to our effective income tax rate and describes the more significant reconciling factors:

	Six Months Ended	
	June 30,	
	2015	2014
Statutory United States federal tax rate	35.0%	35.0%
State income taxes (net of federal benefit)	73.5	5.4
Change in tax status		2.7
Other	2.5	0.4
Effective income tax rate	111.0%	43.5%

State Income Taxes Our effective tax rate for state income taxes is generally impacted by changes in our apportionment. In May 2015, the state of Tennessee enacted the Tennessee Revenue Modernization Act. This legislation impacted our Tennessee apportionment which, in turn, resulted in a state tax benefit for the six months ended June 30, 2015. In addition, our effective tax rate for state income taxes for the six months ended June 30, 2014 was affected by the change in tax status of EBS Master from a partnership to a corporation in January 2014.

Change in Tax Status Prior to the change in tax status of EBS Master from a partnership to a corporation in January 2014, we recognized a deferred tax liability for the difference in the book and tax basis of our investment in EBS Master (i.e., outside basis). The outside tax basis of the investment in EBS Master excluded consideration of goodwill within EBS Master that otherwise would have no tax basis. Following the tax status change, our deferred tax balances reflect only the difference in the book and tax bases of the individual assets and liabilities included in the corporation.

Amendments of the Senior Credit Agreement

In December 2014, we borrowed an additional \$160.0 million under an incremental term loan facility through an amendment to our credit agreement (the Senior Credit Agreement) governing our senior secured term loan facility (the Term Loan Facility) and senior secured revolving credit facility (the Revolving Facility) (collectively, the Senior Credit Facilities).

Critical Accounting Estimates

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

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

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

We believe the current assumptions and other considerations used to estimate amounts reflected in our unaudited condensed consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and

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other considerations used in estimating amounts reflected in our unaudited condensed consolidated financial statements, the resulting changes could have a material adverse effect on our unaudited condensed consolidated results of operations and financial condition.

We believe there have been no significant changes during the six months ended June 30, 2015 to the items we disclosed as our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.

Results of Operations

The following table summarizes our consolidated results of operations for the three and six months ended June 30, 2015 and 2014, respectively (amounts in thousands):

	Three Months Ended				Six Months Ended			
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	Amount	% of Revenue ⁽¹⁾	Amount	% of Revenue ⁽¹⁾	Amount	% of Revenue ⁽¹⁾	Amount	% of Revenue ⁽¹⁾
Revenue:								
Solutions revenue	\$ 263,805	74.4%	\$ 249,077	74.1%	\$ 522,216	74.5%	\$ 485,211	74.0%
Postage revenue	90,996	25.6	87,081	25.9	178,280	25.5	170,154	26.0
Total revenue	354,801	100.0	336,158	100.0	700,496	100.0	655,365	100.0
Cost and expenses:								
Cost of operations (exclusive of depreciation and amortization below)	121,288	46.0	115,499	46.4	242,474	46.4	227,832	47.0
Development and engineering	10,123	3.8	7,062	2.8	20,949	4.0	15,968	3.3
Sales, marketing, general and administrative	46,973	17.8	52,738	21.2	95,237	18.2	103,911	21.4
Customer postage	90,996	25.6	87,081	25.9	178,280	25.5	170,154	26.0
Depreciation and amortization	49,515	14.0	46,630	13.9	97,629	13.9	93,093	14.2
Accretion	3,818	1.1	4,844	1.4	8,797	1.3	4,768	0.7
Impairment of long-lived assets	122	0.0	76,508	22.8	961	0.1	79,576	12.1
Operating income	31,966	9.0	(54,204)	(16.1)	56,169	8.0	(39,937)	(6.1)
Interest expense, net	38,135	10.7	36,543	10.9	76,143	10.9	73,106	11.2
Contingent consideration	1,850	0.5	(290)	(0.1)	(165)	(0.0)	1,670	0.3
Other			(3,971)	(1.2)			(3,971)	(0.6)
Income (loss) before income tax provision (benefit)	(8,019)	(2.3)	(86,486)	(25.7)	(19,809)	(2.8)	(110,742)	(16.9)
Income tax provision (benefit)	(15,947)	(4.5)	(26,959)	(8.0)	(21,987)	(3.1)	(48,226)	(7.4)
Net income (loss)	\$ 7,928	2.2%	\$ (59,527)	(17.7)%	\$ 2,178	0.3%	\$ (62,516)	(9.5)%

(1) Percentages of revenue for cost of operations, development and engineering and sales, marketing, general and administrative line items are based on solutions revenue.

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014**Solutions Revenues**

Our solutions revenues were \$263.8 million for the three months ended June 30, 2015 as compared to \$249.1 million for the three months ended June 30, 2014, an increase of \$14.7 million, or 5.9%. Factors affecting our solutions revenues are described in the various segment discussions below.

Cost of Operations

Our total cost of operations was \$121.3 million for the three months ended June 30, 2015 as compared to \$115.5 million for the three months ended June 30, 2014, an increase of \$5.8 million, or 5.0%. The increase in our cost of operations is primarily due to volume growth and the impact of acquired businesses. As a percentage of solutions revenue, our cost of operations was 46.0% for the three months ended June 30, 2015 as compared to 46.4% for the three months ended June 30, 2014. The decrease in our cost of operations as a percentage of revenue is primarily due to changes in revenue mix and increased productivity.

Table of Contents***Development and Engineering Expense***

Our total development and engineering expense was \$10.1 million for the three months ended June 30, 2015 as compared to \$7.1 million for the three months ended June 30, 2014, an increase of \$3.1 million, or 43.3%. The increase in our development and engineering expense is primarily due to the impact of acquired businesses.

Sales, Marketing, General and Administrative Expense

Our total sales, marketing, general and administrative expense was \$47.0 million for the three months ended June 30, 2015 as compared to \$52.7 million for the three months ended June 30, 2014, a decrease of \$5.8 million, or 10.9%. The decrease in our sales, marketing, general and administrative expense was primarily due to productivity improvements, efficiency measures and the absence of certain non-recurring costs included in the prior year period, partially offset by business growth.

Postage

Our postage revenue and customer postage expense was \$91.0 million for the three months ended June 30, 2015 as compared to \$87.1 million for the three months ended June 30, 2014, an increase of \$3.9 million, or 4.5%. This increase in postage revenue and corresponding expense was due to increased volumes in our payment and communication solutions business and the impact of the United States postage rate increase effective in May 2015.

Depreciation and Amortization Expense

Our depreciation and amortization expense was \$49.5 million for the three months ended June 30, 2015 as compared to \$46.6 million for the three months ended June 30, 2014, an increase of \$2.9 million, or 6.2%. This increase was primarily due to acquisition activity and acceleration of depreciation for certain hardware and software assets.

Accretion

Our accretion expense was \$3.8 million for the three months ended June 30, 2015 as compared to a benefit of \$4.8 million for the three months ended June 30, 2014. The amount recognized as accretion can vary significantly from period to period due to changes in estimates related to the amount or timing of our tax receivable agreement obligation payments. Such changes can result from a variety of factors, including changes in tax rates and the expected timing of prior net operating loss utilization, which can be affected by business combinations, changes in corporate structure, leverage, operations or other factors.

Interest Expense

Our interest expense was \$38.1 million for the three months ended June 30, 2015 as compared to \$36.5 million for the three months ended June 30, 2014, an increase of \$1.6 million, or 4.4%. This increase was primarily due to the impact of the December 2014 incremental term loan, partially offset by scheduled principal payments of term loans under the Senior Credit Facilities.

Income Taxes

Our income tax benefit was \$15.9 million for the three months ended June 30, 2015 as compared to \$27.0 million for the three months ended June 30, 2014. Our effective tax rate was 198.9% for the three months ended June 30, 2015 as compared to 31.2% for the three months ended June 30, 2014. The effective tax rate for the three months ended June 30, 2015 was affected by changes in state tax apportionment, statutory rates, valuation allowance and other permanent items.

Segment Revenues and Adjusted EBITDA

We operate our business in three reportable segments: software and analytics, network solutions and technology-enabled services. We also maintain a corporate function which includes pass-through postage costs, management, administrative and certain other shared corporate services functions such as legal, finance, human resources and marketing, as well as eliminations to remove inter-segment revenue and expenses.

The segment profit measure primarily utilized by management is adjusted EBITDA which is defined as EBITDA (defined as net income (loss) before net interest expense, income tax provision (benefit) and depreciation and amortization),

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plus certain other non-cash or non-operating items. The non-cash or other non-operating items affecting the segment profit measure generally include equity compensation; acquisition accounting adjustments; acquisition-related costs; strategic initiatives, duplicative and transition costs; impairment of long lived assets; and contingent consideration adjustments. Adjusted EBITDA for the respective segments excludes all costs and adjustments associated with the above-referenced corporate functions. Financial information, including details of our adjustments to EBITDA, for each of our segments is set forth in Note 10 to the unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report.

Software and Analytics

Our software and analytics segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

	June 30, 2015	June 30, 2014	\$ Change
Solutions revenue	\$ 67,049	\$ 61,888	\$ 5,161
Adjusted EBITDA	\$ 23,754	\$ 23,156	\$ 598

Software and analytics revenue for the three months ended June 30, 2015 increased by \$5.2 million, or 8.3%, as compared to the prior year period. This increase was primarily driven by acquired businesses and new sales and implementations.

Software and analytics adjusted EBITDA for the three months ended June 30, 2015 increased by \$0.6 million, or 2.6% as compared to the prior year period. The increase in our software and analytics adjusted EBITDA is primarily due to the impact of the revenue items described above, partially offset by increased strategic growth initiative costs. As a percentage of solutions revenue, software and analytics adjusted EBITDA was 35.4% for the three months ended June 30, 2015 as compared to 37.4% for the three months ended June 30, 2014. The decrease in our software and analytics adjusted EBITDA as a percentage of solutions revenue is primarily due to increased strategic investments in consumer engagement and electronic payment solutions.

Network Solutions

Our network solutions segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

	June 30, 2015	June 30, 2014	\$ Change
Solutions revenue	\$ 92,691	\$ 84,351	\$ 8,340
Adjusted EBITDA	\$ 49,540	\$ 42,269	\$ 7,271

Network solutions revenue for the three months ended June 30, 2015 increased by \$8.3 million, or 9.9%, as compared to the prior year period primarily due to increased volumes, new sales and implementations and the impact of acquired businesses, partially offset by customer attrition.

Network solutions adjusted EBITDA for the three months ended June 30, 2015 increased by \$7.3 million, or 17.2%, as compared to the prior year period. As a percentage of solutions revenue, network solutions adjusted EBITDA was 53.4% for the three months ended June 30, 2015 as compared to 50.1% for the three months ended June 30, 2014. The increase in network solutions adjusted EBITDA and as a percentage of solutions revenue was primarily due to the impact of the revenue items described above and other efficiency measures.

Table of Contents**Technology-enabled Services**

Our technology-enabled services segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

	June 30, 2015	June 30, 2014	\$ Change
Solutions revenue	\$ 110,420	\$ 108,916	\$ 1,504
Adjusted EBITDA	\$ 42,745	\$ 41,016	\$ 1,729

Technology-enabled services revenue for the three months ended June 30, 2015 increased by \$1.5 million, or 1.4%, as compared to the prior year period. This increase was primarily due to increased volumes in our payment and communication solutions and new sales and implementations, partially offset by customer attrition and the effects of changing reimbursement patterns and rates of federal and state payers related to our government program eligibility and enrollment services.

Technology-enabled services adjusted EBITDA for the three months ended June 30, 2015 increased by \$1.7 million, or 4.2%, as compared to the prior year period. As a percentage of solutions revenue, technology-enabled services adjusted EBITDA was 38.7% for the three months ended June 30, 2015 as compared to 37.7% for the prior year period. The increase in technology-enabled services adjusted EBITDA and as a percentage of solutions revenue was primarily due to the impact of the revenue items described above, as well as productivity improvements and other efficiency measures.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014**Solutions Revenues**

Our solutions revenues were \$522.2 million for the six months ended June 30, 2015 as compared to \$485.2 million for the six months ended June 30, 2014, an increase of \$37.0 million, or 7.6%. Factors affecting our solutions revenues are described in the various segment discussions below.

Cost of Operations

Our total cost of operations was \$242.5 million for the six months ended June 30, 2015 as compared to \$227.8 million for the six months ended June 30, 2014, an increase of \$14.6 million, or 6.4%. The increase in our cost of operations is primarily due to volume growth and the impact of acquired businesses. As a percentage of solutions revenue, our cost of operations was 46.4% for the six months ended June 30, 2015 as compared to 47.0% for the six months ended June 30, 2014. The decrease in our cost of operations as a percentage of revenue is primarily due to changes in revenue mix and increased productivity.

Development and Engineering Expense

Our total development and engineering expense was \$20.9 million for the six months ended June 30, 2015 as compared to \$16.0 million for the six months ended June 30, 2014, an increase of \$5.0 million, or 31.2%. The increase in our development and engineering expense is primarily due increased research and development and the impact of acquired businesses.

Sales, Marketing, General and Administrative Expense

Our total sales, marketing, general and administrative expense was \$95.2 million for the six months ended June 30, 2015 as compared to \$103.9 million for the six months ended June 30, 2014, a decrease of \$8.7 million, or 8.3%. The decrease in our sales, marketing, general and administrative expense was primarily due to productivity improvements, efficiency measures and the absence of certain non-recurring costs included in the prior year period, partially offset by business growth.

Postage

Our postage revenue and customer postage expense was \$178.3 million for the six months ended June 30, 2015 as compared to \$170.2 million for the six months ended June 30, 2014, an increase of \$8.1 million, or 4.8%. This increase in postage revenue and corresponding expense was due to increased volumes in our payment and communication solutions business and the impact of the United States postage rate increase

effective in May 2015.

Table of Contents***Depreciation and Amortization Expense***

Our depreciation and amortization expense was \$97.6 million for the six months ended June 30, 2015 as compared to \$93.1 million for the six months ended June 30, 2014, an increase of \$4.5 million, or 4.9%. This increase was primarily due to acquisition activity and acceleration for depreciation of certain hardware and software assets.

Accretion

Our accretion expense was \$8.8 million for the six months ended June 30, 2015 as compared to a benefit of \$4.8 million for the six months ended June 30, 2014. The amount recognized as accretion can vary significantly from period to period due to changes in estimates related to the amount or timing of our tax receivable agreement obligation payments. Such changes can result from a variety of factors, including changes in tax rates and the expected timing of prior net operating loss utilization, which can be affected by business combinations, changes in corporate structure, leverage, operations or other factors.

Interest Expense

Our interest expense was \$76.1 million for the six months ended June 30, 2015 as compared to \$73.1 million for the six months ended June 30, 2014, an increase of \$3.0 million, or 4.2%. This increase was primarily due to the impact of the December 2014 incremental term loan, partially offset by scheduled principal payments of term loans under the Senior Credit Facilities.

Income Taxes

Our income tax benefit was \$22.0 million for the six months ended June 30, 2015 as compared to an income tax benefit of \$48.2 million for the six months ended June 30, 2014. Our effective tax rate was 111.0% for the six months ended June 30, 2015 as compared to 43.5% for the six months ended June 30, 2014. The effective tax rate for the six months ended June 30, 2015 was affected by changes in state tax apportionment, statutory rates, valuation allowance and other permanent items.

Segment Revenues and Adjusted EBITDA***Software and Analytics***

Our software and analytics segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

	June 30, 2015	June 30, 2014	\$ Change
Solutions Revenue	\$ 132,918	\$ 116,171	\$ 16,747
Adjusted EBITDA	\$ 43,815	\$ 39,939	\$ 3,876

Software and analytics revenue for the six months ended June 30, 2015 increased by \$16.7 million, or 14.4%, as compared to the prior year period. This increase was primarily driven by acquired businesses and new sales and implementations.

Software and analytics adjusted EBITDA for the six months ended June 30, 2015 increased by \$3.9 million, or 9.7%, as compared to the prior year period. The increase in our software and analytics adjusted EBITDA is primarily due to the impact of the revenue items described above, partially offset by increased strategic growth initiative costs. As a percentage of solutions revenue, software and analytics adjusted EBITDA was 33.0% for the six months ended June 30, 2015 as compared to 34.4% for the six months ended June 30, 2014. The decrease in our software and analytics adjusted EBITDA as a percentage of solutions revenue is primarily due to increased strategic investments in consumer engagement and electronic payment solutions.

Table of Contents**Network Solutions**

Our network solutions segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

	June 30, 2015	June 30, 2014	\$ Change
Solutions Revenue	\$ 182,900	\$ 167,109	\$ 15,791
Adjusted EBITDA	\$ 95,661	\$ 83,518	\$ 12,143

Network solutions revenue for the six months ended June 30, 2015 increased by \$15.8 million, or 9.4%, as compared to the prior year period primarily due to increased volumes, new sales and implementations and the impact of acquired businesses, partially offset by customer attrition.

Network solutions adjusted EBITDA for the six months ended June 30, 2015 increased by \$12.1 million, or 14.5%, as compared to the prior year period. As a percentage of solutions revenue, network solutions adjusted EBITDA was 52.3% for the six months ended June 30, 2015 as compared to 50.0% for the six months ended June 30, 2014. The increase in network solutions adjusted EBITDA and as a percentage of solutions revenue was primarily due to the impact of the revenue items described above and other efficiency measures.

Technology-enabled Services

Our technology-enabled services segment revenue and adjusted EBITDA is summarized in the following table (in thousands):

	June 30, 2015	June 30, 2014	\$ Change
Solutions Revenue	\$ 219,170	\$ 213,350	\$ 5,820
Adjusted EBITDA	\$ 81,914	\$ 77,245	\$ 4,669

Technology-enabled services revenue for the six months ended June 30, 2015 increased by \$5.8 million, or 2.7%, as compared to the prior year period. This increase was primarily due to increased volumes in our payment and communication solutions, partially offset by customer attrition in eligibility and enrollment services.

Technology-enabled services adjusted EBITDA for the six months ended June 30, 2015 increased by \$4.7 million, or 6.0%, as compared to the prior year period. As a percentage of solutions revenue, technology-enabled services adjusted EBITDA was 37.4% for the six months ended June 30, 2015 as compared to 36.2% for the prior year period. The increase in technology-enabled services adjusted EBITDA and as a percentage of solutions revenue was primarily due to the impact of the revenue items described above, as well as productivity improvements and other efficiency measures.

Liquidity and Capital Resources**General**

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

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

We and our subsidiaries, affiliates or significant stockholders may from time to time seek to retire or purchase our outstanding debt (including our senior notes) through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual

restrictions and other factors. The amounts involved may be material.

Table of Contents***Cash Flows*****Operating Activities**

Cash provided by operating activities for the six months ended June 30, 2015 was \$123.6 million as compared to \$33.8 million for six months ended June 30, 2014, an increase of \$89.8 million. This increase is primarily due to business growth, the effects of acquisitions and the timing of collections and related disbursements.

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

Investing Activities

Cash used in investing activities for the six months ended June 30, 2015 was \$23.9 million as compared to \$26.7 million for the six months ended June 30, 2014. Cash used in investing activities for both such periods consisted of capital expenditures for property and equipment and the effects of acquisitions.

Financing Activities

Cash used in financing activities for the six months ended June 30, 2015 was \$21.6 million as compared to \$12.5 million for the six months ended June 30, 2014. Cash used in financing activities for each of the six months ended June 30, 2015 and 2014 primarily consisted of principal payments under our Senior Credit Facilities and deferred financing arrangements. In addition, during the six months ended June 30, 2015, we paid \$8.1 million as final settlement of our contingent consideration obligation to the former shareholders of Goold Health Systems, \$5.6 million of which was included in financing activities.

Long-term Debt

In November 2011, we entered into the Senior Credit Agreement which was comprised of the Term Loan Facility and the Revolving Facility, \$375.0 million of 11% senior notes due 2019 (the 2019 Notes) and \$375.0 million 11.25% senior notes due 2020 (the 2020 Notes ; together with the 2019 Notes, the Senior Notes).

Long-term debt as of June 30, 2015 and December 31, 2014, consisted of the following (amounts in thousands):

	June 30, 2015	December 31, 2014
<i>Senior Credit Facilities</i>		
\$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$11,162 and \$12,740 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 4.21%)	\$ 1,247,790	\$ 1,252,652
\$160 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of \$2,078 and \$2,369 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 4.56%)	156,722	157,231
\$125 million Senior Secured Revolving Credit facility, expiring on November 2, 2016 and bearing interest at a variable base rate plus a spread rate		
<i>Senior Notes</i>		
\$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of \$6,207 and \$6,720 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 11.53%)	368,793	368,280
\$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of \$8,113 and \$8,624 at June 30, 2015 and December 31, 2014, respectively (effective interest rate of 11.86%)	366,887	366,376
<i>Obligation under data sublicense agreement</i>	17,242	17,237
<i>Other</i>	6,913	12,129
Less current portion	(27,133)	(27,308)
Long-term debt	\$ 2,137,214	\$ 2,146,597

Table of Contents***Senior Credit Facilities***

The Senior Credit Agreement provides that, subject to certain conditions, we may request additional tranches of term loans, increase commitments under the Revolving Facility or the Term Loan Facility or add one or more incremental revolving credit facility tranches (provided that the revolving credit commitments outstanding at any time have no more than three different maturity dates) in an aggregate amount not to exceed (a) \$300.0 million plus (b) an unlimited amount at any time, subject to compliance on a pro forma basis with a first lien net leverage ratio of no greater than 4.00 to 1.00. Availability of such additional tranches of term loans or revolving credit facilities and/or increased commitments is subject to, among other conditions, the absence of any default under the Senior Credit Agreement and the receipt of commitments by existing or additional financial institutions. Proceeds of the Revolving Facility, including up to \$30.0 million in the form of borrowings on same-day notice, referred to as swingline loans, and up to \$50.0 million in the form of letters of credit, are available to provide financing for working capital and general corporate purposes.

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

In April 2012, we amended the Senior Credit Agreement to reprice the Senior Credit Facilities and borrow \$80.0 million of additional term loans. In April 2013, we again amended the Senior Credit Agreement to further reprice, and also to modify certain financial covenants under, the Senior Credit Facilities. Following the April 2013 amendment, the interest rate on both the Term Loan Facility and Revolving Facility is LIBOR plus 2.50%. The Term Loan Facility remains subject to a LIBOR floor of 1.25%, and there continues to be no LIBOR floor on the Revolving Facility. In connection with the April 2013 repricing, the Senior Credit Agreement also was amended to, among other things, eliminate the financial covenant related to the consolidated cash interest coverage ratio and modify the financial covenant related to the net leverage test by maintaining the required first lien net leverage ratio at 5.35 to 1.00 for the remaining term of the Senior Credit Facilities.

In December 2014, through another amendment to the Senior Credit Agreement, we borrowed an additional \$160.0 million under an incremental term loan on identical terms and having the same rights and obligations as the existing term loans under the Senior Credit Agreement.

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

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

We generally may voluntarily prepay outstanding loans under the Senior Credit Facilities at any time without premium or penalty other than breakage costs with respect to LIBOR loans.

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

Certain of our United States wholly-owned restricted subsidiaries, together with the Company, are co-borrowers and jointly and severally liable for all obligations under the Senior Credit Facilities. Such obligations of the co-borrowers are unconditionally guaranteed by Beagle Intermediate Holdings, Inc., a direct wholly-owned subsidiary of Beagle Parent Corp., the Company and each of our existing and future United States wholly-owned restricted subsidiaries (with certain exceptions including immaterial subsidiaries). These obligations are secured by a perfected security interest in substantially all of the assets of the co-borrowers and guarantors now owned or later acquired, including a pledge of all of the capital stock of the Company and our United States wholly-owned restricted subsidiaries and 65% of the capital stock of our foreign restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

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The Senior Credit Agreement requires us to comply with a maximum first lien net leverage ratio financial maintenance covenant, to be tested on the last day of each fiscal quarter. A breach of the first lien net leverage ratio covenant is subject to certain equity cure rights. In addition, the Senior Credit Facilities contain a number of negative covenants that, among other things and subject to certain exceptions, restrict our ability and the ability of our subsidiaries to:

incur additional indebtedness or guarantees;

incur liens;

make investments, loans and acquisitions;

consolidate or merge;

sell assets, including capital stock of subsidiaries;

pay dividends on capital stock or redeem, repurchase or retire capital stock of the Company or any restricted subsidiary, subject to customary covenants, including compliance with leverage ratios and subject to limitation based on net income generated during the term of the Senior Credit Agreement;

alter the business of the Company;

amend, prepay, redeem or purchase subordinated debt;

engage in transactions with affiliates; and

enter into agreements limiting dividends and distributions of certain subsidiaries.

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

As of June 30, 2015, we believe we were in compliance with all of the applicable debt covenants under the Senior Credit Agreement.

Senior Notes

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

We may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at any time on or after December 31, 2015 at the applicable redemption price, plus accrued and unpaid interest. At any time prior to December 31, 2015, we may redeem the 2019 Notes, the 2020 Notes or both, in whole or in part, at our option and on one or more occasions, at a redemption price equal to 100% of the principal amount, plus an applicable premium and accrued and unpaid interest. If we experience specific kinds of changes in control, we must offer to purchase the Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

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The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. Our obligations under the Senior Notes are guaranteed on a senior basis by all of our existing and subsequently acquired or organized wholly-owned United States restricted subsidiaries that guarantee our Senior Credit Facilities or our other indebtedness or indebtedness of any affiliate guarantor. The Senior Notes and the related guarantees are effectively subordinated to our existing and future secured obligations and that of our affiliate guarantors to the extent of the value of the collateral securing such obligations, and are structurally subordinated to all existing and future indebtedness and other liabilities of any of our subsidiaries that do not guarantee the Senior Notes.

The indentures governing the Senior Notes (the Indentures) contain customary covenants that restrict our ability and the ability of our restricted subsidiaries to:

pay dividends on our capital stock or redeem, repurchase or retire our capital stock, subject to customary covenants, including compliance with a fixed charge coverage ratio and subject to limitation based on net income generated during the term of the Indentures;

incur additional indebtedness or issue certain capital stock;

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incur certain liens;

make investments, loans, advances and acquisitions;

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

prepay subordinated debt;

engage in certain transactions with our affiliates; and

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

The Indentures also contain certain affirmative covenants and events of default.

As of June 30, 2015, we believe we were in compliance with all of the applicable debt covenants under the Senior Notes.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of June 30, 2015, we had outstanding borrowings of \$1,417.8 million (before unamortized debt discount) under the Senior Credit Agreement. As of June 30, 2015, the LIBOR-based interest rate on the Term Loan Facility and Revolving Facility were each LIBOR plus 2.50%. The Term Loan Facility is subject to a LIBOR floor of 1.25% and there is no LIBOR floor on the Revolving Facility.

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

In January 2012, we executed three interest rate swap agreements with an aggregate notional amount of \$640.0 million to reduce the variability of interest payments associated with the Term Loan Facility. For the six months ended June 30, 2015, our interest rate swap agreements were designated as a cash flow hedge so that changes in the fair market value of the interest rate swap agreements were included within other comprehensive income.

A change in interest rates on variable rate debt may impact our pretax earnings and cash flows. However, due to a floor on the floating rate index of 1.25% under the Term Loan Facility, as of June 30, 2015, our interest rates must increase by more than 100 basis points before our interest expense or cash flows are affected. Based on our outstanding debt as of June 30, 2015, and assuming that our mix of debt instruments, interest

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rate swaps and other variables remain the same, the annualized effect of a one percentage point change in variable interest rates would have minimal impact on our earnings and cash flows.

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

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ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 30, 2015. Based upon that evaluation, our CEO and CFO concluded that, as of June 30, 2015, our disclosure controls and procedures were effective to ensure that the information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting that occurred during the three months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The discussion of the Company's business and operations should be read together with the risk factors contained under the heading Risk Factors in our Form 10-K, which describes various risks and uncertainties to which we are or may be subject. These risks and uncertainties have the potential to affect our business, financial condition and results of operations, cash flows and prospects in a material adverse manner. As of the date hereof, there have been no material changes to the risk factors set forth in our Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

EMDEON INC.

Date: July 24, 2015

By: /s/ Neil E. de Crescenzo
Neil E. de Crescenzo, President and Chief Executive Officer
and Director
(Principal Executive Officer)

Date: July 24, 2015

By: /s/ Randy P. Giles
Randy P. Giles, Chief Financial Officer
(Principal Financial Officer)

Date: July 24, 2015

By: /s/ Dennis B. Robbins
Dennis B. Robbins, Chief Accounting Officer
(Principal Accounting Officer)

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Exhibit Index

Exhibit

No.

2.1	Agreement and Plan of Merger, dated July 3, 2015, by and among MediFAX-EDI, LLC, Alto Merger Sub Inc., Altegra Health, Inc. and Parthenon Investors III, L.P., solely in its capacity as the Stockholders' Representative (included as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 1-34435), filed on July 9, 2015, and incorporated herein by reference).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document