Emdeon Inc.
Form 10-Q
May 11, 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 March 31, 2015

Commission file number 1-34435

EMDEON INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-5799664**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
3055 Lebanon Pike, Suite 1000	
Nashville, TN	**37214**
(Address of Principal Executive Offices)	**(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 x*

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 x 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 x (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 x

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 May 11, 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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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)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,735	$ 82,306
Accounts receivable, net of allowance for doubtful accounts of $5,977 and $6,377 at March 31, 2015 and December 31, 2014, respectively	227,427	233,791
Deferred income tax assets	15,362	18,893
Prepaid expenses and other current assets	33,688	29,246
Total current assets	364,212	364,236
Property and equipment, net	233,260	244,153
Goodwill	1,700,404	1,702,569
Intangible assets, net	1,514,046	1,539,394
Other assets, net	21,395	20,312
Total assets	$ 3,833,317	$ 3,870,664
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 12,107	$ 16,399
Accrued expenses	165,435	175,206
Deferred revenues	10,215	10,518
Current portion of long-term debt	27,350	27,308
Total current liabilities	215,107	229,431
Long-term debt, excluding current portion	2,139,220	2,146,597
Deferred income tax liabilities	401,426	413,227
Tax receivable agreement obligations to related parties	168,962	163,983
Other long-term liabilities	12,600	15,361
Commitments and contingencies		
Equity:		
Common stock (par value, $.01), 100 shares authorized and outstanding at March 31, 2015 and December 31, 2014, respectively		
Additional paid-in capital	1,149,879	1,149,360
Accumulated other comprehensive income (loss)	(2,790)	(1,955)
Accumulated deficit	(251,087)	(245,340)
Total equity	896,002	902,065
Total liabilities and equity	$ 3,833,317	$ 3,870,664

See accompanying notes to unaudited condensed consolidated financial statements.

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Emdeon Inc.

Condensed Consolidated Statements of Operations

(unaudited and amounts in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenue:		
Solutions revenue	$ 258,412	$ 236,135
Postage revenue	87,283	83,072
Total revenue	345,695	319,207
Costs and expenses:		
Cost of operations (exclusive of depreciation and amortization below)	121,297	112,248
Development and engineering	10,825	8,905
Sales, marketing, general and administrative	48,991	54,328
Customer postage	87,283	83,072
Depreciation and amortization	48,114	46,463
Accretion	4,979	(77)
Operating income (loss)	24,206	14,268
Interest expense, net	38,008	36,563
Contingent consideration	(2,015)	1,960
Income (loss) before income tax provision (benefit)	(11,787)	(24,255)
Income tax provision (benefit)	(6,040)	(21,266)
Net income (loss)	$ (5,747)	$ (2,989)

See accompanying notes to unaudited condensed consolidated financial statements.

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Emdeon Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited and amounts in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net income (loss)	$ (5,747)	$ (2,989)
Other comprehensive income (loss):		
Changes in fair value of interest rate swap, net of taxes	(560)	(124)
Foreign currency translation adjustment	(275)	(73)
Other comprehensive income (loss)	(835)	(197)
Total comprehensive income (loss)	$ (6,582)	$ (3,186)

See accompanying notes to unaudited condensed consolidated financial statements.

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Emdeon Inc.

Condensed Consolidated Statements of Equity

(unaudited and amounts in thousands, except share amounts)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Capital	Deficit	(Loss)	Equity
Balance at January 1, 2014	100	$	$ 1,139,375	$ (169,486)	$ (1,343)	$ 968,546
Equity compensation expense			1,892			1,892
Capital contribution from Parent			1,977			1,977
Net income (loss)				(2,989)		(2,989)
Foreign currency translation adjustment					(73)	(73)
Change in fair value of interest rate swap, net of taxes					(124)	(124)
Balance at March 31, 2014	100	$	$ 1,143,244	$ (172,475)	$ (1,540)	$ 969,229
Balance at January 1, 2015	100	$	$ 1,149,360	$ (245,340)	$ (1,955)	$ 902,065
Equity compensation expense			2,186			2,186
Issuance of shares in connection with equity compensation plans, net of taxes			304			304
Repurchase of Parent common stock			(2,471)			(2,471)
Capital contribution from Parent			500			500
Net income (loss)				(5,747)		(5,747)
Foreign currency translation adjustment					(275)	(275)
Change in fair value of interest rate swap, net of taxes					(560)	(560)
Balance at March 31, 2015	100	$	$ 1,149,879	$ (251,087)	$ (2,790)	$ 896,002

See accompanying notes to unaudited condensed consolidated financial statements.

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Emdeon Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited and amounts in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating activities		
Net income (loss)	$ (5,747)	$ (2,989)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	48,114	46,463
Accretion	4,979	(77)
Equity compensation	2,186	1,892
Deferred income tax expense (benefit)	(7,149)	(22,132)
Amortization of debt discount and issuance costs	2,270	1,909
Contingent consideration	(2,015)	1,960
Impairment of long-lived assets	839	3,067
Changes in operating assets and liabilities:		
Accounts receivable	5,254	(950)
Prepaid expenses and other	(5,845)	(4,279)
Accounts payable	(3,653)	(984)
Accrued expenses, deferred revenue and other liabilities	(5,535)	2,787
Net cash provided by (used in) operating activities	33,698	26,667
Investing activities		
Purchases of property and equipment	(12,727)	(14,511)
Payments for acquisitions, net of cash acquired	(20)	(779)
Other	(35)	
Net cash provided by (used in) investing activities	(12,782)	(15,290)
Financing activities		
Payments on Term Loan Facility	(3,620)	(7,669)
Payment of debt assumed from acquisition		(1,877)
Payments on deferred financing arrangements	(4,680)	(3,447)
Repurchase of Parent common stock	(2,438)	
Capital contribution from Parent	804	1,977
Payment of contingent consideration	(5,553)	
Net cash provided by (used in) financing activities	(15,487)	(11,016)
Net increase (decrease) in cash and cash equivalents	5,429	361
Cash and cash equivalents at beginning of period	82,306	76,538
Cash and cash equivalents at end of period	$ 87,735	$ 76,899

See accompanying notes to unaudited condensed consolidated financial statements.

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Emdeon Inc.

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-based solutions, network solutions and technology-enabled services that optimize communications, payments and analytics 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 $83,072 and reclassified as customer postage for the three months ended March 31, 2014.

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

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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Notes to Condensed Consolidated Financial Statements

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

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 a final working capital settlement.

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, 2016. Early adoption is not permitted. 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 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 January 1, 2016. If the update were adopted as of March 31, 2015, other assets within the consolidated balance sheet and long-term debt, excluding current portion would be reduced by $10,494.

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 materially modified after the effective date or retrospectively. The Company is currently assessing the potential effects this update may have 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.

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3. Concentration of Credit Risk

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 March 31, 2015 and December 31, 2014, consisted of the following:

	March 31, 2015	December 31, 2014
Senior Credit Facilities		
$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $11,954 and $12,740 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 4.21%)	$ 1,250,218	$ 1,252,652
$160 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $2,224 and $2,369 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 4.56%)	156,976	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		
Senior Notes		
$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of $6,467 and $6,720 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 11.53%)	368,533	368,280
$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of $8,372 and $8,624 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 11.86%)	366,628	366,376
Obligation under data sublicense agreement	17,242	17,237
Other	6,973	12,129
Less current portion	(27,350)	(27,308)
Long-term debt	$ 2,139,220	$ 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 this 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 the incremental term loan facility (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, 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; provided, however, the Company, for a period of six months following the December 2014 Incremental Term Loan amendment, is subject to a premium of 1.00% of the aggregate principal amount of any Incremental Term Loan amounts so prepaid.

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

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 March 31, 2015, the Company believes it was 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.

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;

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Notes to Condensed Consolidated Financial Statements

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- incur additional indebtedness or issue certain capital stock;
- 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 March 31, 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 March 31, 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 recorded at the present value of the scheduled payments. Such future payments totaled approximately $7,000 at March 31, 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 three months ended March 31, 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 March 31, 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.

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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 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 $2,574 will be reclassified as an increase to interest expense.

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

		Fair Values of Derivative Instruments Asset (Liability) Derivatives	
	Balance Sheet Location	**March 31, 2015**	**December 31, 2014**
Derivatives designated as hedging instruments:			
Interest rate swaps	Other assets	$	$ 222
Interest rate swaps	Accrued expenses	(2,574)	(2,567)
Interest rate swaps	Other long-term liabilities	(724)	
		$ (3,298)	$ (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 months ended March 31, 2015 and 2014, respectively, is summarized in the following table:

	Three Months Ended March 31, 2015	**Three Months Ended March 31, 2014**
Derivatives in Cash Flow Hedging Relationships		
Gain/ (loss) related to effective portion of derivative recognized in other comprehensive loss	$ (1,591)	$ 848
Gain/ (loss) related to effective portion of derivative reclassified from accumulated other comprehensive loss to interest expense	$ (638)	$ (638)

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 March 31, 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 $3,996. If the Company had breached any of these provisions at March 31,

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.

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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 March 31, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

Description	Balance at March 31, 2015	Quoted in Markets Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps	$ (3,298)	$	$ (3,298)	$
Contingent consideration obligations	(7,460)			(7,460)
Total	$ (10,758)	$	$ (3,298)	$ (7,460)

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 March 31, 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.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Balance at beginning of period	$ (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	2,015	(1,960)
Balance at end of period	$ (7,460)	$ (13,459)

The fair value of the Vieosoft contingent consideration obligations at March 31, 2015 was $2,560. During April 2015, the Company exercised its option to terminate all future obligations under the stock purchase agreement in exchange for a cash payment of $4,650.

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 March 31, 2015 were:

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 87,735	$ 87,735
Accounts receivable	$ 227,427	$ 227,427
Senior Credit Facilities (Level 1)	$ 1,421,372	$ 1,424,925
Senior Notes (Level 2)	$ 750,000	$ 822,893

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 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.

Income taxes were also affected by a change in valuation allowance related to state deferred tax assets for one of the Company s subsidiaries. Additionally, the change in fair market value of contingent consideration obligations resulted in a permanent tax difference.

After giving effect to the change in tax status and these other items, income taxes for the three months ended March 31, 2015 amounted to an income tax benefit of $6,040 and an effective tax rate of 51.2%. The income tax benefit for the three months ended March 31, 2014, was $21,266 and resulted in an effective tax rate of 87.7%.

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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 $350,319. $169,907 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 March 31, 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

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

Corporate and eliminations includes pass-through postage costs, management, administrative and certain other shared corporate services 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.

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

	Three Months Ended March 31, 2015				
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	Consolidated
Revenue from external customers:					
Solutions revenue	$ 65,869	$ 90,209	$ 108,750	$ (6,416)	$ 258,412
Postage revenue				87,283	87,283
Inter-segment revenue	255	52	856	(1,163)	
Net revenue	$ 66,124	$ 90,261	$ 109,606	$ 79,704	$ 345,695
Income (loss) before income taxes	18,859	46,721	36,447	(113,814)	(11,787)
Interest expense				38,008	38,008
Depreciation and amortization				48,114	48,114
EBITDA	18,859	46,721	36,447	(27,692)	74,335
Equity compensation	359	108	149	1,570	2,186
Acquisition accounting adjustments	283		228	(68)	443
Acquisition-related costs	17	20	492	308	837
Transaction-related costs and advisory fees				1,517	1,517
Strategic initiatives, duplicative and transition costs	60	55	35	807	957
Severance costs	225	(141)	2,006	14	2,104
Accretion				4,979	4,979
Impairment of long-lived assets	106	514	153	66	839
Contingent consideration		(1,530)	(655)	170	(2,015)
Other non-routine, net	152	374	314	539	1,379
EBITDA Adjustments	1,202	(600)	2,722	9,902	13,226
Adjusted EBITDA	$ 20,061	$ 46,121	$ 39,169	$ (17,790)	$ 87,561

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	Three Months Ended March 31, 2014				
	Software and Analytics	Network Solutions	Technology-enabled Services	Corporate and Eliminations	Consolidated
Revenue from external customers:					
Solutions revenue	$ 54,282	$ 82,759	$ 104,434	$ (5,340)	$ 236,135
Postage revenue				83,072	83,072
Inter-segment revenue	455	77	1,734	(2,266)	
Net revenue	$ 54,737	$ 82,836	$ 106,168	$ 75,466	$ 319,207
Income (loss) before income taxes	15,092	39,091	30,717	(109,155)	(24,255)
Interest expense				36,563	36,563
Depreciation and amortization				46,463	46,463
EBITDA	15,092	39,091	30,717	(26,129)	58,771
Equity compensation	156	157	278	1,301	1,892
Acquisition accounting adjustments	45	11	255		311
Acquisition-related costs	12	27	483	848	1,370
Transaction-related costs and advisory fees				1,500	1,500
Strategic initiatives, duplicative and transition costs	21	119	29	4,876	5,045
Severance costs	1,154	279	556	759	2,748
Accretion				(77)	(77)
Impairment of long-lived assets	65	49	2,810	143	3,067
Contingent consideration		1,372	588		1,960
Other non-routine, net	239	145	513	821	1,718
EBITDA Adjustments	1,692	2,159	5,512	10,171	19,534
Adjusted EBITDA	$ 16,784	$ 41,250	$ 36,229	$ (15,958)	$ 78,305

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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 three months ended March 31, 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	(275)		(275)
Change associated with current period hedging		78	78
Reclassification into earnings		(638)	(638)
Balance at March 31, 2015	$ (758)	$ (2,032)	$ (2,790)

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 March 31, 2015 and December 31, 2014, condensed consolidating statements of operations and comprehensive income (loss) and condensed consolidating cash flows for the three months ended March 31, 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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Condensed Consolidating Balance Sheet

	As of March 31, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 801	$ 86,934	$	$ 87,735
Accounts receivable, net of allowance for doubtful accounts		227,427		227,427
Deferred income tax assets		15,362		15,362
Prepaid expenses and other current assets	6,202	27,486		33,688
Total current assets	7,003	357,209		364,212
Property and equipment, net	6	233,254		233,260
Due from affiliates		200,529	(200,529)	
Investment in consolidated subsidiaries	1,756,009		(1,756,009)	
Goodwill		1,700,404		1,700,404
Intangible assets, net	131,250	1,382,796		1,514,046
Other assets, net	166,374	18,706	(163,685)	21,395
Total assets	$ 2,060,642	$ 3,892,898	$ (2,120,223)	$ 3,833,317
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$	$ 12,107	$	$ 12,107
Accrued expenses	16,174	149,261		165,435
Deferred revenues		10,215		10,215
Current portion of long-term debt	6,709	20,641		27,350
Total current liabilities	22,883	192,224		215,107
Due to affiliates	200,529		(200,529)	
Long-term debt, excluding current portion	771,542	1,367,678		2,139,220
Deferred income tax liabilities		565,111	(163,685)	401,426
Tax receivable agreement obligations to related parties	168,962			168,962
Other long-term liabilities	724	11,876		12,600
Commitments and contingencies				
Equity	896,002	1,756,009	(1,756,009)	896,002
Total liabilities and equity	$ 2,060,642	$ 3,892,898	$ (2,120,223)	$ 3,833,317

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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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Condensed Consolidating Statement of Operations

	Three Months Ended March 31, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:				
Solutions revenue	$	$ 258,412	$	$ 258,412
Postage revenue		87,283		87,283
Total revenue		345,695		345,695
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		121,297		121,297
Development and engineering		10,825		10,825
Sales, marketing, general and administrative	3,052	45,939		48,991
Customer postage		87,283		87,283
Depreciation and amortization	2,251	45,863		48,114
Accretion	4,979			4,979
Operating income (loss)	(10,282)	34,488		24,206
Equity in earnings of consolidated subsidiaries	(14,172)		14,172	
Interest expense, net	23,282	14,726		38,008
Contingent consideration		(2,015)		(2,015)
Income (loss) before income tax provision (benefit)	(19,392)	21,777	(14,172)	(11,787)
Income tax provision (benefit)	(13,645)	7,605		(6,040)
Net income (loss)	$ (5,747)	$ 14,172	$ (14,172)	$ (5,747)

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Condensed Consolidating Statement of Operations

	Three Months Ended March 31, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:				
Solutions revenue	$	$ 236,135	$	$ 236,135
Postage revenue		83,072		83,072
Total revenue		319,207		319,207
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)		112,248		112,248
Development and engineering		8,905		8,905
Sales, marketing, general and administrative	7,016	47,312		54,328
Customer postage		83,072		83,072
Depreciation and amortization	2,251	44,212		46,463
Accretion	(77)			(77)
Operating income (loss)	(9,190)	23,458		14,268
Equity in earnings of consolidated subsidiaries	21,408		(21,408)	
Interest expense, net	23,390	13,173		36,563
Contingent consideration		1,960		1,960
Income (loss) before income tax provision (benefit)	(53,988)	8,325	21,408	(24,255)
Income tax provision (benefit)	(50,999)	29,733		(21,266)
Net income (loss)	$ (2,989)	$ (21,408)	$ 21,408	$ (2,989)

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Condensed Consolidating Statement of Comprehensive Income (Loss)

	Three Months Ended March 31, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (5,747)	$ 14,172	$ (14,172)	$ (5,747)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(560)			(560)
Foreign currency translation adjustment		(275)		(275)
Equity in other comprehensive earnings	(275)		275	
Other comprehensive income (loss)	(835)	(275)	275	(835)
Total comprehensive income (loss)	$ (6,582)	$ 13,897	$ (13,897)	$ (6,582)

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Condensed Consolidating Statement of Comprehensive Income (Loss)

	Three Months Ended March 31, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (2,989)	$ (21,408)	$ 21,408	$ (2,989)
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(124)			(124)
Foreign currency translation adjustment		(73)		(73)
Equity in other comprehensive earnings	(73)		73	
Other comprehensive income (loss)	(197)	(73)	73	(197)
Total comprehensive income (loss)	$ (3,186)	$ (21,481)	$ 21,481	$ (3,186)

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Condensed Consolidating Statement of Cash Flows

	Three Months Ended March 31, 2015			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities				
Net income (loss)	$ (5,747)	$ 14,172	$ (14,172)	$ (5,747)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,251	45,863		48,114
Accretion	4,979			4,979
Equity compensation	87	2,099		2,186
Deferred income tax expense (benefit)	(13,796)	6,647		(7,149)
Amortization of debt discount and issuance costs	717	1,553		2,270
Contingent consideration		(2,015)		(2,015)
Impairment of long lived assets		839		839
Equity in earnings of consolidated subsidiaries	(14,172)		14,172	
Changes in operating assets and liabilities:				
Accounts receivable		5,254		5,254
Prepaid expenses and other	(3,542)	(2,303)		(5,845)
Accounts payable		(3,653)		(3,653)
Accrued expenses, deferred revenue, and other liabilities	10,718	(16,253)		(5,535)
Due to/from affiliates	19,919	(19,919)		
Net cash provided (used in) by operating activities	1,414	32,284		33,698
Investing activities				
Purchases of property and equipment		(12,727)		(12,727)
Payments for acquisitions, net of cash acquired		(20)		(20)
Other		(35)		(35)
Investment in subsidiary	294		(294)	
Net cash provided by (used in) investing activities	294	(12,782)	(294)	(12,782)
Financing activities				
Distributions from (to) Emdeon Inc. net		(294)	294	
Payments on Term Loan Facility	(69)	(3,551)		(3,620)
Payments on deferred financing arrangements		(4,680)		(4,680)
Repurchase of Parent common stock	(2,438)			(2,438)
Capital contribution from Parent	804			804
Payment of contingent consideration		(5,553)		(5,553)
Net cash provided by (used in) financing activities	(1,703)	(14,078)	294	(15,487)
Net increase (decrease) in cash and cash equivalents	5	5,424		5,429

Cash and cash equivalents at beginning of period	796	81,510		82,306
Cash and cash equivalents at end of period	$ 801	$ 86,934	$	$ 87,735

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Condensed Consolidating Statement of Cash Flows

	Three Months Ended March 31, 2014			
	Emdeon Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities				
Net income (loss)	$ (2,989)	$ (21,408)	$ 21,408	$ (2,989)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,251	44,212		46,463
Accretion expense	(77)			(77)
Equity compensation expense	114	1,778		1,892
Deferred income tax expense (benefit)	(51,086)	28,954		(22,132)
Amortization of debt discount and issuance costs	652	1,257		1,909
Contingent consideration		1,960		1,960
Impairment of long lived assets		3,067		3,067
Equity in earnings of consolidated subsidiaries	21,408		(21,408)	
Changes in operating assets and liabilities:				
Accounts receivable		(950)		(950)
Prepaid expenses and other	(3,836)	(443)		(4,279)
Accounts payable		(984)		(984)
Accrued expenses, deferred revenue, and other liabilities	10,300	(7,513)		2,787
Due to/from affiliates	19,497	(19,497)		
Net cash provided by (used in) operating activities	(3,766)	30,433		26,667
Investing activities				
Purchases of property and equipment		(14,511)		(14,511)
Payments for acquisitions, net of cash acquired		(779)		(779)
Investment in subsidiaries, net	(114)		114	
Net cash provided by (used in) investing activities	(114)	(15,290)	114	(15,290)
Financing activities				
Distributions from (to) Emdeon Inc., net		114	(114)	
Payments on Term Loan Facility	(165)	(7,504)		(7,669)
Payment of debt assumed from acquisition		(1,877)		(1,877)
Payments on deferred financing arrangements		(3,447)		(3,447)
Capital contribution from Parent	1,977			1,977
Net cash provided by (used in) financing activities	1,812	(12,714)	(114)	(11,016)
Net increase (decrease) in cash and cash equivalents	(2,068)	2,429		361
Cash and cash equivalents at beginning of period	2,794	73,744		76,538

Cash and cash equivalents at end of period	$ 726	$ 76,173	$	$ 76,899

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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 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 expr 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-based solutions, network solutions and technology-enabled services that optimize communications, payments and analytics 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 solutions from us. Emdeon s Intelligent Healthcare Platform , 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

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 platforms by transitioning to a cloud environment. The transition and development of new platforms in a cloud environment 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 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.

Effective January 1, 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.

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.

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 April 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.

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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, Inc. (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, Inc. (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 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.

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.

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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. The following table and subsequent commentary reconciles our federal statutory rate to our effective income tax rate and the subsequent commentary describes the more significant of the reconciling factors:

	Three Months Ended March 31,	
	2015	**2014**
Statutory United States federal tax rate	35.0%	35.0%
State income taxes (net of federal benefit)	8.7	40.0
Change in tax status		12.4
Contingent consideration	6.0	(2.8)
Other	1.5	3.1
Effective income tax rate	51.2%	87.7%

State Income Taxes Our effective tax rate for state income taxes is generally impacted by changes in our apportionment. In addition, our effective tax rate for state income taxes for the three months ended March 31, 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 $160,000 under an incremental term loan facility (Incremental Term Loan) 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
- 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 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 three months ended March 31, 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.

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Results of Operations

The following table summarizes our consolidated results of operations for the three months ended March 31, 2015 and 2014, respectively (amounts in thousands).

	Three Months Ended			
	March 31, 2015		March 31, 2014	
	Amount	% of Revenue[(1)]	Amount	% of Revenue[(1)]
Revenue:				
Solutions revenue	$ 258,412	74.8%	$ 236,135	74.0%
Postage revenue	87,283	25.2	83,072	26.0
Total revenue	345,695	100.0	319,207	100.0
Cost and expenses:				
Cost of operations (exclusive of depreciation and amortization below)	121,297	46.9	112,248	47.5
Development and engineering	10,825	4.2	8,905	3.8
Sales, marketing, general and administrative	48,991	19.0	54,328	23.0
Customer postage	87,283	25.2	83,072	26.0
Depreciation and amortization	48,114	13.9	46,463	14.6
Accretion	4,979	1.4	(77)	(0.0)
Operating income	24,206	7.0	14,268	4.5
Interest expense, net	38,008	11.0	36,563	11.5
Contingent consideration	(2,015)	(0.6)	1,960	0.6
Income (loss) before income tax provision (benefit)	(11,787)	(3.4)	(24,255)	(7.6)
Income tax provision (benefit)	(6,040)	(1.7)	(21,266)	(6.7)
Net income (loss)	$ (5,747)	(1.7)%	$ (2,989)	(0.9)%

(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 March 31, 2015 Compared to Three Months Ended March 31, 2014

Solutions Revenues

Our solutions revenues were $258.4 million for the three months ended March 31, 2015 as compared to $236.1 million for the three months ended March 31, 2014, an increase of $22.3 million, or 9.4%. 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 March 31, 2015 as compared to $112.2 million for the three months ended March 31, 2014, an increase of $9.0 million, or 8.1%. The increase in our cost of operations is primarily due to volume growth, including approximately $7.0 million related to acquired businesses. As a percentage of solutions revenue, our cost of operations was 46.9% for the three months ended March 31, 2015 as compared to 47.5% for the three months ended March 31, 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 $10.8 million for the three months ended March 31, 2015 as compared to $8.9 million for the three months ended March 31, 2014, an increase of $1.9 million, or 21.6%. 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 $49.0 million for the three months ended March 31, 2015 as compared to $54.3 million for the three months ended March 31, 2014, a decrease of $5.3 million, or 9.8%. 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 $87.3 million for the three months ended March 31, 2015 as compared to $83.1 million for the three months ended March 31, 2014, an increase of $4.2 million, or 5.1%. This increase in postage revenue and corresponding expense was due to increased volumes in our payment and communication solutions business.

Depreciation and Amortization Expense

Our depreciation and amortization expense was $48.1 million for the three months ended March 31, 2015 as compared to $46.5 million for the three months ended March 31, 2014, an increase of $1.7 million, or 3.6%. This increase was primarily due to increased capital expenditures and acquisition activity.

Accretion

Our accretion expense was $5.0 million for the three months ended March 31, 2015 as compared to a benefit of $0.1 million for the three months ended March 31, 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 $38.0 million for the three months ended March 31, 2015 as compared to $36.6 million for the three months ended March 31, 2014, an increase of $1.4 million, or 4.0%. This increase was primarily due to the impact of the Incremental Term Loan, partially offset by scheduled principal payments under the existing credit facilities.

Income Taxes

Our income tax benefit was $6.0 million for the three months ended March 31, 2015 as compared to an income tax benefit of $21.3 million for the three months ended March 31, 2014. Our effective tax rate was 51.2% for the three months ended March 31, 2015 as compared to 87.7% for the three months ended March 31, 2014. The effective tax rate for the three months ended March 31, 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. These administrative costs are excluded from the adjusted EBITDA measure for each respective reportable segment.

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), 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):

	March 31, 2015	March 31, 2014	$ Change
Solutions revenue	$ 65,869	$ 54,282	$ 11,587
Adjusted EBITDA	$ 20,061	$ 16,784	$ 3,277

Software and analytics solutions revenue for the three months ended March 31, 2015 increased by $11.6 million, or 21.3%, as compared to the prior year period. This increase was primarily driven by new sales and implementations, particularly within our electronic payment and revenue cycle technology solutions, and $4.6 million related to acquired businesses.

Software and analytics adjusted EBITDA for the three months ended March 31, 2015 increased by $3.3 million, or 19.5% 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 30.5% for the three months ended March 31, 2015 as compared to 30.9% for the three months ended March 31, 2014. The decrease in our software and analytics adjusted EBITDA as a percentage of solutions revenue is primarily due to increased strategic growth initiative costs.

Network Solutions

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

	March 31, 2015	March 31, 2014	$ Change
Solutions revenue	$ 90,209	$ 82,759	$ 7,450
Adjusted EBITDA	$ 46,121	$ 41,250	$ 4,871

Network solutions revenue for the three months ended March 31, 2015 increased by $7.5 million, or 9.0%, as compared to the prior year period primarily due to increased volumes, new sales and implementations and $4.9 million related to acquired businesses, partially offset by customer attrition.

Network solutions adjusted EBITDA for the three months ended March 31, 2015 increased by $4.9 million, or 11.8%, as compared to the prior year period. As a percentage of solutions revenue, network solutions adjusted EBITDA was 51.1% for the three months ended March 31, 2015 as compared to 49.8% for the three months ended March 31, 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):

	March 31, 2015	March 31, 2014	$ Change
Solutions revenue	$ 108,750	$ 104,434	$ 4,316
Adjusted EBITDA	$ 39,169	$ 36,229	$ 2,940

Technology-enabled services revenue for the three months ended March 31, 2015 increased by $4.3 million, or 4.1%, 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.

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Technology-enabled services adjusted EBITDA for the three months ended March 31, 2015 increased by $2.9 million, or 8.1%, as compared to the prior year period. As a percentage of solutions revenue, technology-enabled services adjusted EBITDA was 36.0% for the three months ended March 31, 2015 as compared to 34.7% 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.

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.

Cash Flows

Operating Activities

Cash provided by operating activities for the three months ended March 31, 2015 was $33.7 million as compared to $26.7 million for three months ended March 31, 2014, an increase of $7.0 million. This increase is primarily due to business growth.

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 three months ended March 31, 2015 was $12.8 million as compared to $15.3 million for the three months ended March 31, 2014. Cash used in investing activities for the three months ended March 31, 2015 consisted of capital expenditures for property and equipment. Cash used in investing activities for the three months ended March 31, 2014 consisted of capital expenditures for property and equipment and cash consideration paid for the February 2014 Vieosoft acquisition.

Financing Activities

Cash used in financing activities for the three months ended March 31, 2015 was $15.5 million as compared to $11.0 million for the three months ended March 31, 2014. Cash used in financing activities for each of the three months ended March 31, 2015 and 2014 primarily consisted of principal payments under our Senior Credit Facilities and deferred financing arrangements.

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 March 31, 2015 and December 31, 2014, consisted of the following:

	March 31, 2015	December 31, 2014
Senior Credit Facilities		
$1,301 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $11,954 and $12,740 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 4.21%)	$ 1,250,218	$ 1,252,652
$160 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $2,224 and $2,369 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 4.56%)	156,976	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		
Senior Notes		
$375 million 11% Senior Notes due December 31, 2019, net of unamortized discount of $6,467 and $6,720 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 11.53%)	368,533	368,280
$375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of $8,372 and $8,624 at March 31, 2015 and December 31, 2014, respectively (effective interest rate of 11.86%)	366,628	366,376
Obligation under data sublicense agreement	17,242	17,237
Other	6,973	12,129
Less current portion	(27,350)	(27,308)
Long-term debt	$ 2,139,220	$ 2,146,597

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 this 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,

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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 $160,000 under the 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; provided, however, the Company, for a period of six months following the December 2014 Incremental Term Loan amendment, is subject to a premium of 1.00% of the aggregate principal amount of any Incremental Term Loan amounts so prepaid.

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.

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.

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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 March 31, 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.

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;
- 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 March 31, 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.

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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 March 31, 2015, we had outstanding borrowings of $1,421 million (before unamortized debt discount) under the Senior Credit Agreement. As of March 31, 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 million to reduce the variability of interest payments associated with the Term Loan Facility. For the quarter ended March 31, 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 March 31, 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 March 31, 2015, and assuming that our mix of debt instruments, interest 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.

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 March 31, 2015. Based upon that evaluation, our CEO and CFO concluded that, as of March 31, 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 March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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: May 11, 2015

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

Date: May 11, 2015

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

Date: May 11, 2015

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

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Exhibit Index

Exhibit No.	
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