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

# FORM 10-Q/A

**(Amendment No. 1)**

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

**For the quarterly period ended September 30, 2016**

**Commission file number 1-34435**

# CHANGE HEALTHCARE HOLDINGS, INC.
**(Exact Name of Registrant as Specified in its Charter)**

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

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

| Class | Outstanding as of November 10, 2016 |
|---|---|
| **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.

## EXPLANATORY NOTE

Change Healthcare Holdings, Inc. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q (this "Amendment") to restate and amend the Company's previously issued condensed consolidated financial statements and related financial information as of and for the three and nine months ended September 30, 2016 and 2015 previously included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the "Original Filing"), which was previously filed with the Securities and Exchange Commission (the "SEC") on November 10, 2016 (the "Original Filing

Date”). This Amendment also amends the following items in the Original Filing: Item 1 of Part I “Financial Statements”; Item 2 of Part I “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; and Item 4 of Part I “Controls and Procedures”.

As described in the Company’s Current Report on Form 8-K filed January 24, 2017, on January 22, 2017, the Audit Committee of our Board of Directors (the “Audit Committee”) and the full Board of Directors, after discussion with Company management and Ernst & Young LLP, our independent registered public accounting firm, determined that the audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014 included in our Annual Report on Form 10-K for the year ended December 31, 2015 and the unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2016 and 2015 included in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 previously filed with the SEC should be amended to reflect the adjustments described herein.

Except as described below, this Amendment does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the Original Filing Date. As such, this Amendment speaks only as of the Original Filing Date, and the Company has not undertaken to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amendment should be read in conjunction with the Company’s filings made with the SEC subsequent to the filing of the Original Filing, including any amendment to those filings.

**Background**

In connection with a planned contribution of substantially all of the net assets of the Company to a joint venture (the “Transaction”), prior conclusions regarding the Company’s accounting for certain historical transactions have been re-evaluated. As part of this re-evaluation, the Company has determined that a restatement of its audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014 and the unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2016 and 2015 is appropriate. The restatement relates to the accounting treatment of certain items and results in an increase of our net income and reduction of balance sheet liabilities. There is no impact on cash flows for the related periods and EBITDA calculations under our credit agreement and indentures are not affected by the restatement.

In January 2014, the Company effected a change in the tax status of EBS Master LLC (“EBS Master”), one of its wholly-owned subsidiaries, 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 were required to reflect the differences in the book and tax bases of the individual assets and liabilities included in the corporation (i.e. inside basis).

In January 2017, following the re-evaluation in connection with the Transaction, the Company determined that a portion of the deferred tax liability previously related to the outside basis was attributable to the excess of book over tax basis goodwill for which no deferred tax liability would be permitted under generally accepted accounting principles when calculated using the inside basis. Because the Company’s consolidated financial statements for the year ended December 31, 2014 included such a deferred tax liability, the Company has restated its consolidated financial statements as of and for the year ended December 31, 2014 to reflect the removal of this deferred tax liability and restated its consolidated financial statements as of and for the year ended December 31, 2015 and as of and for the three and nine months ended September 30, 2016 and 2015 to adjust for the effect of this 2014 adjustment on the subsequent periods. In addition, the Company will also revise the financial statements for other adjustments related to deferred tax liabilities. The impact of these adjustments is immaterial to all periods presented.

For the year ended December 31, 2014, the elimination of this tax liability increased the Company’s income tax benefit (and net income) and decreased the Company’s deferred income tax liabilities by $190.7 million. This change had no impact on cash flows, EBITDA calculations under our credit agreement and indentures or compliance with our covenants thereunder. Please refer to “Adjustment of Previously Issued Financial Statements” within Note 1 to our unaudited condensed consolidated financial statements and notes thereto in this Amendment for more information regarding the adjustment.

Along with restating our financial statements for the correction discussed above, we are making adjustments for certain immaterial items with respect to the three and nine months ended September 30, 2016 and 2015. We have assessed the impact of these adjustments and concluded that they were not material individually, or in the aggregate, to our financial statements as of the balance sheet dates for any of the respective periods. However, in conjunction with the restatement, we have determined it would be appropriate within this Amendment to record these adjustments for the respective periods. Please refer to “Adjustment of Previously Issued Financial Statements” within Note 1 to our unaudited condensed consolidated financial statements and notes thereto in this Amendment for more information regarding the effect of these adjustments.

**Restatement of Conclusion Regarding Disclosure Controls and Procedures**

At the time of the Original Filing, our chief executive officer (“CEO”) (principal executive officer) and the chief financial officer (“CFO”) (principal financial officer), concluded that our disclosure controls and procedures and internal control over financial reporting were effective as of September 30, 2016. Subsequent to that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of September 30, 2016 because of the material weakness in internal control over financial reporting as described in Item 4 of Part I “Controls and Procedures”. As a result, we have restated Item 4 of Part I “Controls and Procedures” to include disclosure of the material weakness.

**Change Healthcare Holdings, Inc.**

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2016 (Restated) | December 31, 2015 (Restated) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 92,449 | $ 66,655 |
| Accounts receivable, net of allowance for doubtful accounts of $3,610 and $3,379 at September 30, 2016 and December 31, 2015, respectively | 276,378 | 280,858 |
| Prepaid expenses and other current assets | 42,559 | 35,413 |
| Total current assets | 411,386 | 382,926 |
| Property and equipment, net | 227,670 | 244,145 |
| Goodwill | 2,212,898 | 2,213,770 |
| Intangible assets, net | 1,638,654 | 1,707,863 |
| Other assets, net | 9,776 | 8,500 |
| Total assets | $ 4,500,384 | $ 4,557,204 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 26,316 | $ 27,950 |
| Accrued expenses | 177,796 | 167,169 |
| Deferred revenues | 18,189 | 12,943 |
| Current portion of long-term debt | 30,163 | 32,775 |
| Total current liabilities | 252,464 | 240,837 |
| Long-term debt, excluding current portion | 2,740,554 | 2,741,178 |
| Deferred income tax liabilities | 157,529 | 214,597 |
| Tax receivable agreement obligations to related parties | 184,139 | 173,493 |
| Other long-term liabilities | 16,173 | 11,954 |
| Commitments and contingencies | | |
| Equity: | | |
| Common stock (par value, $.01), 100 shares authorized and outstanding at September 30, 2016 and December 31, 2015, respectively | — | — |
| Additional paid-in capital | 1,325,585 | 1,319,754 |
| Accumulated other comprehensive income (loss) | (4,719) | (2,656) |
| Accumulated deficit | (171,341) | (141,953) |
| Total equity | 1,149,525 | 1,175,145 |
| Total liabilities and equity | $ 4,500,384 | $ 4,557,204 |

See accompanying notes to unaudited condensed consolidated financial statements.

**Change Healthcare Holdings, Inc.**
**Condensed Consolidated Statements of Operations**
**(unaudited and amounts in thousands)**

| | Three Months Ended September 30, 2016 (Restated) | Three Months Ended September 30, 2015 (Restated) | Nine Months Ended September 30, 2016 (Restated) | Nine Months Ended September 30, 2015 (Restated) |
|---|---|---|---|---|
| Revenue: | | | | |
| Solutions revenue | $ 307,586 | $ 287,946 | $ 942,362 | $ 810,162 |
| Postage revenue | 73,880 | 89,839 | 234,205 | 268,119 |
| Total revenue | 381,466 | 377,785 | 1,176,567 | 1,078,281 |
| Costs and expenses: | | | | |
| Cost of operations (exclusive of depreciation and amortization below) | 138,685 | 129,385 | 430,216 | 371,859 |
| Development and engineering | 16,494 | 11,651 | 46,015 | 32,600 |
| Sales, marketing, general and administrative | 69,513 | 56,719 | 210,377 | 151,955 |
| Customer postage | 73,880 | 89,839 | 234,205 | 268,119 |
| Depreciation and amortization | 65,899 | 85,817 | 188,882 | 183,446 |
| Accretion | 1,721 | 6,458 | 10,645 | 15,254 |
| Impairment of long-lived assets | 20 | 219 | 251 | 1,180 |
| Operating income (loss) | 15,254 | (2,303) | 55,976 | 53,868 |
| Interest expense, net | 46,534 | 45,541 | 139,720 | 121,685 |
| Contingent consideration | — | (4,660) | — | (4,825) |
| Income (loss) before income tax provision (benefit) | (31,280) | (43,184) | (83,744) | (62,992) |
| Income tax provision (benefit) | (32,704) | (9,806) | (54,356) | (31,070) |
| Net income (loss) | $ 1,424 | $ (33,378) | $ (29,388) | $ (31,922) |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended September 30, 2016 (Restated) | Three Months Ended September 30, 2015 (Restated) | Nine Months Ended September 30, 2016 (Restated) | Nine Months Ended September 30, 2015 (Restated) |
|---|---|---|---|---|
| Net income (loss) | $ 1,424 | $ (33,378) | $ (29,388) | $ (31,922) |
| Other comprehensive income (loss): | | | | |
| Changes in fair value of interest rate swap, net of taxes | 330 | 6 | (2,303) | (445) |
| Foreign currency translation adjustment | (70) | (347) | 240 | (531) |
| Other comprehensive income (loss) | 260 | (341) | (2,063) | (976) |
| Total comprehensive income (loss) | $ 1,684 | $ (33,719) | $ (31,451) | $ (32,898) |

See accompanying notes to unaudited condensed consolidated financial statements.

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**Change Healthcare Holdings, Inc.**
**Condensed Consolidated Statements of Equity**
**(unaudited and amounts in thousands, except share amounts)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2015 (Restated)** | 100 | $ — | $1,149,360 | $ (54,120) | $ (1,955) | $1,093,285 |
| Equity compensation expense | — | — | 6,814 | — | — | 6,814 |
| Issuance of shares in connection with equity compensation plans, net of taxes | — | — | 305 | — | — | 305 |
| Repurchase of Parent common stock | — | — | (4,351) | — | — | (4,351) |
| Capital contribution from Parent | — | — | 166,576 | — | — | 166,576 |
| Net income (loss) | — | — | — | (31,922) | — | (31,922) |
| Foreign currency translation adjustment | — | — | — | — | (531) | (531) |
| Change in fair value of interest rate swap, net of taxes | — | — | — | — | (445) | (445) |
| **Balance at September 30, 2015 (Restated)** | 100 | $ — | $1,318,704 | $ (86,042) | $ (2,931) | $1,229,731 |
| **Balance at January 1, 2016 (Restated)** | 100 | $ — | $1,319,754 | $ (141,953) | $ (2,656) | $1,175,145 |
| Equity compensation expense | — | — | 8,089 | — | — | 8,089 |
| Repurchase of Parent common stock | — | — | (2,258) | — | — | (2,258) |
| Net income (loss) | — | — | — | (29,388) | — | (29,388) |
| Foreign currency translation adjustment | — | — | — | — | 240 | 240 |
| Change in fair value of interest rate swap, net of taxes | — | — | — | — | (2,303) | (2,303) |
| **Balance at September 30, 2016 (Restated)** | 100 | $ — | $1,325,585 | $ (171,341) | $ (4,719) | $1,149,525 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, 2016 (Restated) | Nine Months Ended September 30, 2015 (Restated) |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | $ (29,388) | $ (31,922) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 188,882 | 183,446 |
| Accretion | 10,645 | 15,254 |
| Equity compensation | 8,089 | 6,814 |
| Deferred income tax expense (benefit) | (54,631) | (27,643) |
| Amortization of debt discount and issuance costs | 10,224 | 7,441 |
| Contingent consideration | — | (4,825) |
| Impairment of long-lived assets | 251 | 1,180 |
| Other | (1,417) | (1,474) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,489 | 6,147 |
| Prepaid expenses and other | (8,344) | (11,674) |
| Accounts payable | (3,839) | 10,517 |
| Accrued expenses, deferred revenue and other liabilities | 21,051 | (918) |
| Net cash provided by (used in) operating activities | 145,012 | 152,343 |
| **Investing activities** | | |
| Purchases of property and equipment | (53,830) | (39,175) |
| Payments for acquisitions, net of cash acquired | 1,502 | (717,669) |
| Purchases of technology-based intangible assets | (43,495) | (3,676) |
| Net cash provided by (used in) investing activities | (95,823) | (760,520) |
| **Financing activities** | | |
| Proceeds from Term Loan Facility | — | 385,411 |
| Proceeds from Senior Notes | — | 243,453 |
| Proceeds from Revolving Facility | — | 60,000 |
| Payments on Revolving Facility | — | (60,000) |
| Payments on Term Loan Facility | (13,890) | (11,870) |
| Payment of debt assumed from acquisition | — | (154,469) |
| Payments of deferred financing obligations | (7,621) | (6,173) |
| Repurchase of Parent common stock | (1,884) | (4,351) |
| Capital contribution from Investor Group and management | — | 166,881 |
| Payment of contingent consideration | — | (5,553) |
| Other | — | (2,500) |
| Net cash provided by (used in) financing activities | (23,395) | 610,829 |
| Net increase (decrease) in cash and cash equivalents | 25,794 | 2,652 |
| Cash and cash equivalents at beginning of period | 66,655 | 82,306 |
| Cash and cash equivalents at end of period | $ 92,449 | $ 84,958 |

See accompanying notes to unaudited condensed consolidated financial statements.

**Change Healthcare Holdings, 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*

Change Healthcare Holdings, Inc. (the "Company"), through its subsidiaries, is a provider of software and analytics, network solutions and technology-enabled services that optimize communications, payments and actionable insights designed to enable smarter healthcare. The Company's integrated capabilities enable its customers to exchange mission critical information, optimize revenue opportunities, control costs, increase cash flows and efficiently manage complex work flows.

### *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, Change Healthcare, Inc. ("Parent") and Beagle Acquisition Corp. ("Merger Sub"), Merger Sub merged with and into the Company with the Company surviving the merger (the "2011 Merger"). Subsequent to the 2011 Merger, the Company became an indirect wholly-owned subsidiary of Parent, which is controlled by affiliates of The Blackstone Group L.P. ("Blackstone").

### *Proposed Business Combination Transaction*

On June 28, 2016, Parent and its controlling stockholders—affiliates of Blackstone and Hellman & Friedman ("H&F")—entered into an Agreement of Contribution and Sale (the "Contribution Agreement") with McKesson Corporation ("McKesson"). Under the terms of the Contribution Agreement, Parent stockholders and McKesson have agreed to form a joint venture ("NewCo") that combines the majority of the McKesson Technology Solutions businesses ("MTS") with Parent's businesses, including substantially all of the assets and operations of the Company, but excluding the Company's pharmacy claims switching and prescription routing businesses (the "MTS Transaction"). McKesson will retain its Enterprise Information Solutions business and its RelayHealth Pharmacy Network and the Company's pharmacy claims switching and prescription routing businesses will be retained by Parent stockholders.

Pursuant to the terms of the Contribution Agreement, (i) Parent stockholders will, directly and indirectly, transfer ownership of Parent to NewCo in consideration of (a) the payment at the closing of the MTS Transaction by NewCo to Parent stockholders and certain participants in the Change Healthcare Amended and Restated 2009 Equity Incentive Plan (the "Parent Equity Plan") of approximately $1.75 billion and (b) the issuance to Parent stockholders of membership interests representing approximately 30% of NewCo's equity interests; and (ii) McKesson will cause MTS to be transferred to NewCo in consideration of (a) NewCo's assumption, and subsequent repayment to McKesson at the closing of the MTS Transaction, of a promissory note in the aggregate principal amount of approximately $1.25 billion, (b) the issuance of membership interests in NewCo representing approximately 70% of NewCo's equity interests and (c) a tax receivable agreement from NewCo. Actual cash payment and equity amounts are subject to certain adjustments in accordance with the Contribution Agreement.

In connection with the MTS Transaction, NewCo has entered into a commitment letter with Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Bank USA, Barclays Bank PLC and Citigroup Global Markets Inc. pursuant to which subsidiaries of NewCo have obtained debt financing commitments for $6.1 billion in long-term funded debt and a $500 million revolving credit facility. The proceeds of the committed debt financing will be used to make all payments to Parent stockholders and McKesson described above, to refinance certain of the Company's existing indebtedness and to pay fees and expenses incurred in connection with the MTS Transaction. The revolving credit commitments also will be available for ongoing working capital and other general corporate purposes of subsidiaries of NewCo following completion of the MTS Transaction.

The Company has incurred and expects to continue to incur significant other expenses related to the MTS Transaction, a portion of which may be shared with McKesson or reimbursed by Newco upon completion of the MTS transaction. Specific amounts to be shared or reimbursed by Newco are subject to further refinement based upon specific agreement among the parties to the MTS Transaction. As a result, initial estimates could differ materially from final determined amounts. For the nine months ended September 30, 2016, the Company has recognized approximately $15,786 of expense related to such costs, net of expected reimbursements.

Upon closing of the MTS Transaction, the Company also expects to incur a significant charge related to the accelerated vesting of a portion of outstanding stock-based awards under the Parent Equity Plan and other incentive awards. Additionally, because the MTS Transaction will qualify as a covered change in control under certain of the Company's tax receivable agreements, the Company could be required to make payments in the future that significantly exceed its actual cash tax savings from the tax benefits giving rise to such payments.

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

The MTS Transaction is subject to various closing conditions, including the expiration or termination of the waiting period under applicable antitrust laws, the completion of the committed debt financing described above, the delivery of audited financial statements for MTS, the separation of the Company's pharmacy claims switching and prescription routing businesses and other customary closing conditions. The Contribution Agreement may be terminated by McKesson and/or Parent under certain circumstances, including if the MTS Transaction is not consummated by June 28, 2017, or if there is a change in tax law or certain relevant facts such that a party's respective tax advisor will be unable to render a favorable tax opinion at the closing of the MTS Transaction as to the tax-free nature of certain elements of the MTS Transaction affecting such party.

On August 31, 2016, McKesson received a request for additional information and documentary materials from the U.S. Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company continues to anticipate that the MTS Transaction will be completed in the first half of calendar year 2017.

***Restatement of Previously Issued Financial Statements***

In connection with the MTS Transaction, prior conclusions regarding the Company's accounting for certain historical transactions have been re-evaluated. As part of this re-evaluation, the Company has determined that a restatement of its condensed consolidated financial statements as of and for the three and nine months ended September 30, 2016 and 2015 is appropriate. The restatement relates to accounting treatment of certain items and results in an increase of our net income and reduction of balance sheet liabilities. There is no impact on cash flows for the related periods and EBITDA calculations under our credit agreement and indentures are not affected by the restatement.

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 were required to reflect the differences in the book and tax bases of the individual assets and liabilities included in the corporation (i.e. inside basis).

In January 2017, following the re-evaluation in connection with the MTS Transaction, the Company determined that a portion of the deferred tax liability previously related to the outside basis was attributable to the excess of book over tax basis goodwill for which no deferred tax liability would be permitted under generally accepted accounting principles when calculated using the inside basis. Because the Company's consolidated financial statements as of and for the year ended December 31, 2014 and 2015 included such a deferred tax liability, the Company has restated its consolidated financial statements as of and for the year ended December 31, 2014 to reflect the removal of this deferred tax liability and restated its condensed consolidated financial statements and related notes (including Notes 8 and 12) as of and for the three and nine months ended September 30, 2016 and 2015 to reflect the effect of this 2014 adjustment on the subsequent periods

The Company also corrected immaterial other tax adjustments in the periods presented that impacted reported goodwill and deferred tax accounts.

The following table presents the effect on the Company's condensed consolidated balance sheets and the Company's condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the periods indicated.

| **Consolidated Balance Sheets** | **Previously Reported** | **Restatement Adjustments** | **As Restated** |
|---|---|---|---|
| **As of September 30, 2016** | | | |
| Goodwill | $2,229,228 | $ (16,330) | $2,212,898 |
| Deferred income tax liabilities | $ 370,233 | $ (212,704) | $ 157,529 |
| Accumulated deficit | $ (367,715) | $ 196,374 | $ (171,341) |
| **As of December 31, 2015** | | | |
| Goodwill | $2,230,100 | $ (16,330) | $2,213,770 |
| Deferred income tax liabilities | $ 430,383 | $ (215,786) | $ 214,597 |
| Accumulated deficit | $ (341,409) | $ 199,456 | $ (141,953) |
| **Consolidated Statements of Operations** | | | |
| **For the three months ended September 30, 2016** | | | |
| Income tax provision (benefit) | $ (33,765) | $ 1,061 | $ (32,704) |
| Net income (loss) | $ 2,485 | $ (1,061) | $ 1,424 |
| **For the three months ended September 30, 2015** | | | |
| Income tax provision (benefit) | $ (10,278) | $ 472 | $ (9,806) |
| Net income (loss) | $ (32,906) | $ (472) | $ (33,378) |
| **For the nine months ended September 30, 2016** | | | |
| Income tax provision (benefit) | $ (57,438) | $ 3,082 | $ (54,356) |
| Net income (loss) | $ (26,306) | $ (3,082) | $ (29,388) |
| **For the nine months ended September 30, 2015** | | | |
| Income tax provision (benefit) | $ (32,264) | $ 1,194 | $ (31,070) |
| Net income (loss) | $ (30,728) | $ (1,194) | $ (31,922) |
| **Consolidated Statements of Comprehensive Income (Loss):** | | | |
| **For the three months ended September 30, 2016** | | | |
| Net income (loss) | $ 2,485 | $ (1,061) | $ 1,424 |
| Total comprehensive income (loss) | $ 2,745 | $ (1,061) | $ 1,684 |

| | | | |
|---|---|---|---|
| **For the three months ended September 30, 2015** | | | |
| Net income (loss) | $ (32,906) | $ (472) | $ (33,378) |
| Total comprehensive income (loss) | $ (33,247) | $ (472) | $ (33,719) |
| **For the nine months ended September 30, 2016** | | | |
| Net income (loss) | $ (26,306) | $ (3,082) | $ (29,388) |
| Total comprehensive income (loss) | $ (28,369) | $ (3,082) | $ (31,451) |
| **For the nine months ended September 30, 2015** | | | |
| Net income (loss) | $ (30,728) | $ (1,194) | $ (31,922) |
| Total comprehensive income (loss) | $ (31,704) | $ (1,194) | $ (32,898) |

**Consolidated Statements of Cash Flows:**

| | | | |
|---|---|---|---|
| **For the nine months ended September 30, 2016** | | | |
| Net income (loss) | $ (26,306) | $ (3,082) | $ (29,388) |
| Deferred income tax expense (benefit) | $ (57,713) | $ 3,082 | $ (54,631) |
| **For the nine months ended September 30, 2015** | | | |
| Net income (loss) | $ (30,728) | $ (1,194) | $ (31,922) |
| Deferred income tax expense (benefit) | $ (28,837) | $ 1,194 | $ (27,643) |

## 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.

***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 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.

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***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, which replaces most prior general and industry specific revenue recognition guidance with a principles-based comprehensive revenue recognition framework. Under this revised framework, a company will recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. This update is effective for fiscal years and interim periods beginning in those years after December 15, 2017. Early adoption is permitted in years beginning after December 15, 2016. Upon adoption, a company may elect to either retrospectively restate each prior reporting period or reflect the cumulative effect of initially applying the update with an adjustment to retained earnings at the date of adoption. While the Company cannot yet determine the transition method or the effect the adoption of this update will have on its financial statements, the Company believes that significant changes to its accounting policies, estimation processes, internal controls and information systems, as well as significant implementation costs prior to adoption, will be necessary to comply with this update. Such changes are expected to be necessary to accumulate information and data required to estimate the transaction prices in our contracts, and to allocate such transaction prices to the specific performance obligations in our contracts, as a result of variability from volume-based pricing, price increases, contingent fees, service level agreements and other arrangements.

In January 2016, the Company adopted FASB 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. The adoption of this update had no material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, which generally requires that all lease obligations be recognized on the balance sheet at the present value of the remaining lease payments with a corresponding lease asset. This update is scheduled to be effective for fiscal years and interim periods beginning in those years after December 15, 2018. The Company is currently assessing the potential effects this update may have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, which generally requires that all income tax effects of share-based payment awards be recognized in the statement of operations when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This update is scheduled to be effective for fiscal years and interim periods beginning in those years after December 15, 2016, with early adoption permitted. The Company is currently assessing the potential effects this update may have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, which requires that a financial asset (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This update is scheduled to be effective for fiscal years and interim periods beginning in those years after December 15, 2019, with early adoption permitted beginning with fiscal years beginning after December 15, 2018. The Company is currently assessing the potential effects this update may have on its consolidated financial statements.

In August 2016, the Company adopted FASB ASU No. 2016-15, which specifies the treatment within the statement of cash flows of eight specific matters including the treatment of debt prepayment or debt extinguishment costs and contingent consideration payments made after a business combination, among other matters. The adoption of this update had no material effect on the Company's consolidated financial statements.

## 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.

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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

The Company's long-term indebtedness is 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"), 11.25% senior notes due 2020 (the "2020 Notes") and 6% senior notes due 2021 (the "2021 Notes"; together with the 2019 Notes and 2020 Notes, the "Senior Notes").

Long-term debt as of September 30, 2016 and December 31, 2015 consisted of the following:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| *Senior Credit Facilities* | | |
| $1,696 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $17,494 and $23,511 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 4.29%) | $ 1,615,308 | $ 1,621,981 |
| $160 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $2,483 and $3,334 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 4.54%) | 154,317 | 154,666 |
| $125 million Senior Secured Revolving Credit facility, $28.4 million expiring on November 2, 2016 and $96.6 million expiring on August 3, 2018, 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 $5,327 and $6,299 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 11.53%) | 369,673 | 368,701 |
| $375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of $7,496 and $8,471 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 11.85%) | 367,504 | 366,529 |
| $250 million 6% Senior Notes due February 15, 2021, net of unamortized discount of $5,382 and $6,161 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 6.57%) | 244,618 | 243,839 |
| *Obligation under data sublicense agreement* | 10,810 | 10,810 |
| *Other* | 8,487 | 7,427 |
| Less current portion | (30,163) | (32,775) |
| Long-term debt | $ 2,740,554 | $ 2,741,178 |

***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 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 ($2,985 outstanding as of September 30, 2016), are available to provide financing for working capital and general corporate purposes.

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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%.

The interest rate on both the Term Loan Facility and Revolving Facility is 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.

In August 2015, through an amendment to the Senior Credit Agreement, the Company borrowed an additional $395,000 under incremental term loan facilities on identical terms and having the same rights and obligations as the existing term loans under the Senior Credit Agreement.

In September 2016, through an amendment to the Senior Credit Agreement, the Company extended the maturity date in respect of $96.6 million of the Revolving Facility to August 2018. The remaining $28.4 million of the Revolving Facility that was available as of September 30, 2016, subsequently expired on November 2, 2016.

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

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

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

The Company is required to make quarterly payments equal to 0.25% of the aggregate principal amount of the loans under the Term Loan Facility, with the balance due and payable on November 2, 2018. Any principal amount outstanding under the Revolving Facility is due and payable on August 3, 2018.

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 Change Healthcare 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.

The Senior Credit Agreement requires the Company to comply with a maximum first lien net leverage ratio financial maintenance covenant at 5.35 to 1.00 for the remaining term of the Senior Credit Facilities, 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;
- 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 September 30, 2016, 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 2021 Notes bear interest at an annual rate of 6.00% with interest payable semi-annually on April 15 and October 15 of each year. The 2021 Notes mature on February 15, 2021.

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.

The Company may redeem the 2021 Notes, in whole or in part, at any time on or after August 15, 2017 at the applicable redemption price, plus accrued and unpaid interest. At any time prior to August 15, 2017, the Company may, at its option and on one or more occasions, redeem up to 40% of the aggregate principal amount of the 2021 Notes at a redemption price equal to 100% of the aggregate principal amount, plus a premium and accrued and unpaid interest with the net cash proceeds of certain equity offerings. At any time prior to August 15, 2017, the Company may redeem the 2021 Notes, 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 a “make-whole 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 capital stock or redeem, repurchase or retire capital stock of the Company, subject to customary exceptions, 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 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 September 30, 2016, 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 $12,700 remained payable at September 30, 2016). In connection with the 2011 Merger, the Company was required to adjust this obligation to its fair value.

***Other***

From time to time, the Company enters into deferred financing arrangements with certain vendors. The obligations under such arrangements are generally recorded at the present value of the scheduled payments. Such future payments totaled approximately $8,500 at September 30, 2016.

**5. Interest Rate Swap**

***Risk Management Objective of Using Derivative Financial Instruments***

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 derivative financial instruments 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 swap and cap agreements as part of its interest rate risk management strategy. During the three months ended September 30, 2016, such derivative financial instruments were used to hedge the variable cash flows associated with existing variable-rate debt pursuant to the Term Loan Facility.

In January 2012, the Company executed three interest rate swap agreements with an aggregate notional amount of $640,000 to reduce the variability of interest payments associated with the Term Loan Facility. The interest rate swap agreements expire in February 2017. In March 2016, the Company executed two annuitized interest rate cap agreements with a combined notional amount of $650,000 to limit the exposure of the variable component of interest rates under the Term Loan Facility or future variable rate indebtedness to a maximum of 1.25%, beginning in March 2017 and expiring in March 2020. As of September 30, 2016, the Company's outstanding interest rate swap agreements and interest rate cap agreements were designated as cash flow hedges of interest rate risk and determined to be highly effective.

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The effective portion of changes in the fair value of derivative financial instruments 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 derivative financial instruments is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to derivative financial instruments 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 $1,427 will be reclassified as an increase to interest expense.

The following table summarizes the fair value of the Company's derivative financial instruments at September 30, 2016 and December 31, 2015:

| | Fair Values of Derivative Financial Instruments Asset (Liability) | | |
|---|---|---|---|
| | Balance Sheet Location | September 30, 2016 | December 31, 2015 |
| **Derivative financial instruments designated as hedging instruments:** | | | |
| Interest rate swap and cap agreements | Accrued expenses | $ (2,527) | $ (1,870) |
| Interest rate swap and cap agreements | Other long-term liabilities | (3,897) | (556) |
| | | $ (6,424) | $ (2,426) |

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

The effect of the derivative financial instruments on the accompanying unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015, respectively, is summarized in the following table:

| | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| **Derivative financial instruments in cash flow hedging relationships:** | | | | |
| Gain/ (loss) related to effective portion of derivative financial instruments recognized in other comprehensive loss | $ (71) | $ (645) | $ (5,867) | $ (2,695) |
| Gain/ (loss) related to effective portion of derivative financial instruments reclassified from accumulated other comprehensive loss to interest expense | $ (652) | $ (652) | $ (1,942) | $ (1,935) |
| Gain/ (loss) related to ineffective portion of derivative financial instruments recognized in interest expense | $ 30 | $ — | $ (71) | $ — |

***Credit Risk-related Contingent Features***

The Company has agreements with each of its derivative financial instrument 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 financial instrument obligations.

As of September 30, 2016, the termination value of the Company's derivative financial instruments in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $7,341. If the Company had breached any of these provisions at September 30, 2016, the Company could have been required to settle its obligations under the agreements at this termination value. The Company does not offset any derivative financial instruments, and the derivative financial 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 September 30, 2016, aggregated by the level in the fair value hierarchy within which those measurements fall.

| Description | Balance at September 30, 2016 | Quoted in Markets Identical (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Interest rate swap and cap agreements | $ (6,424) | $ — | $ (6,424) | $ — |
| Contingent consideration obligations | — | — | — | — |
| Total | $ (6,424) | $ — | $ (6,424) | $ — |

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 financial instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair value of the interest rate swap and cap agreements 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 financial instrument 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 derivative financial instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivative financial instruments utilize Level 3 inputs to evaluate the likelihood of default by itself and by its counterparties. As of September 30, 2016, 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 financial instrument valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Balance at beginning of period | $(4,650) | $(9,310) | $(4,650) | $(17,486) |
| Adjustment of provisional amounts | — | — | — | (50) |
| Settlement of contingent consideration | — | — | — | 8,061 |
| Gain/ (loss) included in contingent consideration | — | 4,660 | — | 4,825 |
| Transfers out of Level 3 fair value measurements | 4,650 | — | 4,650 | — |
| Balance at end of period | $ — | $(4,650) | $ — | $ (4,650) |

During April 2015, the Company exercised its option to terminate all future obligations under the Vieosoft, Inc. ("Vieosoft") stock purchase agreement in exchange for a cash payment of $4,650 to the former stockholders of Vieosoft. This termination payment was not accepted, and the former stockholders of Vieosoft have filed a lawsuit against the Company.

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Because this amount no longer represents a fair value measurement, the Company has transferred this obligation out of fair value measurements. The Company currently does not believe this lawsuit will result in additional liability that will have a material adverse effect on its business, financial condition or results of operations.

***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 September 30, 2016 were:

| | Carrying Amount | Fair Value |
|---|---|---|
| Cash and cash equivalents | $ 92,449 | $ 92,449 |
| Accounts receivable | $ 276,378 | $ 276,378 |
| Senior Credit Facilities (Level 1) | $1,769,625 | $1,791,643 |
| Senior Notes (Level 2) | $ 981,795 | $1,062,969 |

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 (Restated)

Income taxes have been affected by both routine changes in apportionment following the filing of the Company's tax returns each year, as well as certain discrete events.

In May 2015, the state of Tennessee enacted the Tennessee Revenue Modernization Act, which changed the manner in which the Company's Tennessee apportionment is determined.

In December 2015, the Company simplified its legal organizational structure for which the primary economic effect was to enable it to realize deferred tax assets for state income tax purposes that it previously had concluded were not likely to be realized. In July 2016, the Company further simplified its legal organizational structure which affected apportionment of state income taxes.

During the nine months ended September 30, 2016, the Company incurred transaction expenses in connection with the proposed MTS Transaction for which no income tax deduction is anticipated.

After giving effect to these events, income taxes for the nine months ended September 30, 2016 amounted to an income tax benefit of $54,356 and an effective tax rate of 64.9%. The income tax benefit for the nine months ended September 30, 2015 was $31,070 and resulted in an effective tax rate of 49.3%.

## 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 2011 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 $355,244. $185,125 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 September 30, 2016.

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## 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, 2015 as filed with the SEC.

### *Software and Analytics*

The software and analytics segment provides revenue cycle technology, revenue optimization, payment integrity, electronic payment, risk adjustment, quality reporting, data and analytics and engagement solutions.

### *Network Solutions*

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

### *Technology-enabled Services*

The technology-enabled services segment provides communication and payment, 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 communication and payment 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.

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

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

| | Three Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Software and Analytics | Network Solutions | Technology-enabled Services | Corporate and Eliminations | Consolidated |
| Revenue from external customers: | | | | | |
| Solutions revenue | $ 125,082 | $93,814 | $ 96,455 | $ (7,765) | $ 307,586 |
| Postage revenue | — | — | — | 73,880 | 73,880 |
| Inter-segment revenue | — | 198 | 1,513 | (1,711) | — |
| Net revenue | $ 125,082 | $94,012 | $ 97,968 | $ 64,404 | $ 381,466 |
| Income (loss) before income taxes | $ 39,804 | $50,911 | $ 30,052 | $ (152,047) | $ (31,280) |
| Interest expense | — | — | — | 46,534 | 46,534 |
| Depreciation and amortization | — | — | — | 65,899 | 65,899 |
| EBITDA | 39,804 | 50,911 | 30,052 | (39,614) | 81,153 |
| Equity compensation | 951 | 204 | 162 | 1,718 | 3,035 |
| Acquisition accounting adjustments | 106 | — | 116 | — | 222 |
| Acquisition-related costs | 362 | 22 | 39 | 466 | 889 |
| MTS transaction-related costs | — | — | — | 6,818 | 6,818 |
| Monitoring fees and related costs | — | — | — | 1,525 | 1,525 |
| Strategic initiatives, duplicative and transition costs | 2,318 | 532 | 582 | 2,509 | 5,941 |
| Severance costs | 1,589 | 174 | 213 | 2,429 | 4,405 |
| Accretion | — | — | — | 1,721 | 1,721 |
| Impairment of long-lived assets | — | — | — | 20 | 20 |
| Other non-routine, net | 1,180 | 4 | 14 | (603) | 595 |
| EBITDA Adjustments | 6,506 | 936 | 1,126 | 16,603 | 25,171 |
| Adjusted EBITDA | $ 46,310 | $51,847 | $ 31,178 | $ (23,011) | $ 106,324 |

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

| | Three Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Software and Analytics | Network Solutions | Technology-enabled Services | Corporate and Eliminations | Consolidated |
| Revenue from external customers: | | | | | |
| Solutions revenue | $ 97,766 | $93,415 | $ 103,720 | $ (6,955) | $ 287,946 |
| Postage revenue | — | — | — | 89,839 | 89,839 |
| Inter-segment revenue | — | 146 | 1,111 | (1,257) | — |
| Net revenue | $ 97,766 | $93,561 | $ 104,831 | $ 81,627 | $ 377,785 |
| Income (loss) before income taxes | $ 36,407 | $49,733 | $ 35,523 | $ (164,847) | $ (43,184) |
| Interest expense | — | — | — | 45,541 | 45,541 |
| Depreciation and amortization | — | — | — | 85,817 | 85,817 |
| EBITDA | 36,407 | 49,733 | 35,523 | (33,489) | 88,174 |
| Equity compensation | 428 | 187 | 218 | 1,798 | 2,631 |
| Acquisition accounting adjustments | 227 | — | 159 | — | 386 |
| Acquisition-related costs | 58 | 12 | 107 | 3,551 | 3,728 |
| Monitoring fees and related costs | — | — | — | 1,960 | 1,960 |
| Strategic initiatives, duplicative and transition costs | 879 | 396 | 614 | 1,270 | 3,159 |
| Severance costs | 429 | 195 | 354 | (131) | 847 |
| Accretion | — | — | — | 6,458 | 6,458 |
| Impairment of long-lived assets | — | — | — | 219 | 219 |
| Contingent consideration | (4,660) | — | — | — | (4,660) |
| Other non-routine, net | 252 | 385 | (476) | (1,282) | (1,121) |
| EBITDA Adjustments | (2,387) | 1,175 | 976 | 13,843 | 13,607 |
| Adjusted EBITDA | $ 34,020 | $50,908 | $ 36,499 | $ (19,646) | $ 101,781 |

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

| | Nine Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Software and Analytics | Network Solutions | Technology-enabled Services | Corporate and Eliminations | Consolidated |
| Revenue from external customers: | | | | | |
| Solutions revenue | $ 387,624 | $282,633 | $ 295,243 | $ (23,138) | $ 942,362 |
| Postage revenue | — | — | — | 234,205 | 234,205 |
| Inter-segment revenue | — | 555 | 4,200 | (4,755) | — |
| Net revenue | $ 387,624 | $283,188 | $ 299,443 | $ 206,312 | $1,176,567 |
| Income (loss) before income taxes | 119,926 | 150,849 | 92,870 | (447,389) | (83,744) |
| Interest expense | — | — | — | 139,720 | 139,720 |
| Depreciation and amortization | — | — | — | 188,882 | 188,882 |
| EBITDA | 119,926 | 150,849 | 92,870 | (118,787) | 244,858 |
| Equity compensation | 2,290 | 526 | 506 | 4,767 | 8,089 |
| Acquisition accounting adjustments | 461 | (2) | 356 | — | 815 |
| Acquisition-related costs | 2,346 | 56 | 82 | 1,270 | 3,754 |
| MTS transaction-related costs | — | — | — | 15,787 | 15,787 |
| Monitoring fees and related costs | — | — | — | 4,710 | 4,710 |
| Strategic initiatives, duplicative and transition costs | 5,273 | 1,287 | 1,367 | 6,605 | 14,532 |
| Severance costs | 2,462 | 1,031 | 1,307 | 3,002 | 7,802 |
| Accretion | — | — | — | 10,645 | 10,645 |
| Impairment of long-lived assets | — | — | — | 251 | 251 |
| Other non-routine, net | 1,334 | 238 | 167 | 1,720 | 3,459 |
| EBITDA Adjustments | 14,166 | 3,136 | 3,785 | 48,757 | 69,844 |
| Adjusted EBITDA | $ 134,092 | $153,985 | $ 96,655 | $ (70,030) | $ 314,702 |

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

| | Nine Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Software and Analytics | Network Solutions | Technology-enabled Services | Corporate and Eliminations | Consolidated |
| Revenue from external customers: | | | | | |
| Solutions revenue | $ 231,193 | $276,315 | $ 322,743 | $ (20,089) | $ 810,162 |
| Postage revenue | — | — | — | 268,119 | 268,119 |
| Inter-segment revenue | — | 268 | 3,282 | (3,550) | — |
| Net revenue | $ 231,193 | $276,583 | $ 326,025 | $ 244,480 | $1,078,281 |
| Income (loss) before income taxes | 77,416 | 143,278 | 112,609 | (396,295) | (62,992) |
| Interest expense | — | — | — | 121,685 | 121,685 |
| Depreciation and amortization | — | — | — | 183,446 | 183,446 |
| EBITDA | 77,416 | 143,278 | 112,609 | (91,164) | 242,139 |
| Equity compensation | 1,641 | 828 | (350) | 4,695 | 6,814 |
| Acquisition accounting adjustments | 834 | 3 | 478 | — | 1,315 |
| Acquisition-related costs | 91 | 64 | 935 | 5,792 | 6,882 |
| Monitoring fees and related costs | — | — | — | 5,138 | 5,138 |
| Strategic initiatives, duplicative and transition costs | 2,370 | 1,162 | 877 | 3,744 | 8,153 |
| Severance costs | (145) | (151) | 4,075 | 1,185 | 4,964 |
| Accretion | — | — | — | 15,254 | 15,254 |
| Impairment of long-lived assets | — | — | — | 1,180 | 1,180 |
| Contingent consideration | (4,730) | (95) | — | — | (4,825) |
| Other non-routine, net | 360 | 1,481 | (214) | (1,410) | 217 |
| EBITDA Adjustments | 421 | 3,292 | 5,801 | 35,578 | 45,092 |
| Adjusted EBITDA | $ 77,837 | $146,570 | $ 118,410 | $ (55,586) | $ 287,231 |

## 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 nine months ended September 30, 2016.

| | Foreign Currency Translation Adjustment | Cash Flow Hedge | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Balance at January 1, 2016 | $ (1,136) | $ (1,520) | $ (2,656) |
| Change associated with foreign currency translation | 240 | — | 240 |
| Change associated with current period hedging | — | (361) | (361) |
| Reclassification into earnings | — | (1,942) | (1,942) |
| Balance at September 30, 2016 | $ (896) | $ (3,823) | $ (4,719) |

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

### 12. Supplemental Condensed Consolidating Financial Information (Restated)

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 September 30, 2016 and December 31, 2015, condensed consolidating statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, respectively, and condensed consolidating statements of cash flows for the nine months ended September 30, 2016 and 2015, 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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**Change Healthcare Holdings, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(unaudited and amounts in thousands, except share and per share amounts)**

**Condensed Consolidating Balance Sheet**

| | As of September 30, 2016 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 799 | $ 91,650 | $ — | $ 92,449 |
| Accounts receivable, net of allowance for doubtful accounts | — | 276,378 | — | 276,378 |
| Prepaid expenses and other current assets | 2,512 | 40,047 | — | 42,559 |
| Total current assets | 3,311 | 408,075 | — | 411,386 |
| Property and equipment, net | 1 | 227,669 | — | 227,670 |
| Due from affiliates | 75,473 | — | (75,473) | — |
| Investment in consolidated subsidiaries | 2,002,836 | — | (2,002,836) | — |
| Goodwill | — | 2,212,898 | — | 2,212,898 |
| Intangible assets, net | 99 | 1,638,555 | — | 1,638,654 |
| Other assets, net | 305,925 | 9,326 | (305,475) | 9,776 |
| Total assets | $ 2,387,645 | $4,496,523 | $(2,383,784) | $4,500,384 |
| **LIABILITIES AND EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 284 | $ 26,032 | $ — | $ 26,316 |
| Accrued expenses | 21,471 | 156,325 | — | 177,796 |
| Deferred revenues | — | 18,189 | — | 18,189 |
| Current portion of long-term debt | 8,100 | 22,063 | — | 30,163 |
| Total current liabilities | 29,855 | 222,609 | — | 252,464 |
| Due to affiliates | — | 75,473 | (75,473) | — |
| Long-term debt, excluding current portion | 1,018,174 | 1,722,380 | — | 2,740,554 |
| Deferred income tax liabilities | — | 463,004 | (305,475) | 157,529 |
| Tax receivable agreement obligations to related parties | 184,139 | — | — | 184,139 |
| Other long-term liabilities | 5,952 | 10,221 | — | 16,173 |
| Commitments and contingencies | | | | |
| Equity | 1,149,525 | 2,002,836 | (2,002,836) | 1,149,525 |
| Total liabilities and equity | $ 2,387,645 | $4,496,523 | $(2,383,784) | $4,500,384 |

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

**Condensed Consolidating Balance Sheet**

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 738 | $ 65,917 | $ — | $ 66,655 |
| Accounts receivable, net of allowance for doubtful accounts | — | 280,858 | — | 280,858 |
| Prepaid expenses and other current assets | 2,234 | 33,179 | — | 35,413 |
| Total current assets | 2,972 | 379,954 | — | 382,926 |
| Property and equipment, net | 3 | 244,142 | — | 244,145 |
| Due from affiliates | 135,406 | — | (135,406) | — |
| Investment in consolidated subsidiaries | 1,976,243 | — | (1,976,243) | — |
| Goodwill | — | 2,213,770 | — | 2,213,770 |
| Intangible assets, net | 1,000 | 1,706,863 | — | 1,707,863 |
| Other assets, net | 268,137 | 8,050 | (267,687) | 8,500 |
| Total assets | $ 2,383,761 | $4,552,779 | $(2,379,336) | $4,557,204 |
| **LIABILITIES AND EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ — | $ 27,950 | $ — | $ 27,950 |
| Accrued expenses | 10,689 | 156,480 | — | 167,169 |
| Deferred revenues | — | 12,943 | — | 12,943 |
| Current portion of long-term debt | 8,099 | 24,676 | — | 32,775 |
| Total current liabilities | 18,788 | 222,049 | — | 240,837 |
| Due to affiliates | — | 135,406 | (135,406) | — |
| Long-term debt, excluding current portion | 1,015,243 | 1,725,935 | — | 2,741,178 |
| Deferred income tax liabilities | — | 482,284 | (267,687) | 214,597 |
| Tax receivable agreement obligations to related parties | 173,493 | — | — | 173,493 |
| Other long-term liabilities | 1,092 | 10,862 | — | 11,954 |
| Commitments and contingencies | | | | |
| Equity | 1,175,145 | 1,976,243 | (1,976,243) | 1,175,145 |
| Total liabilities and equity | $ 2,383,761 | $4,552,779 | $(2,379,336) | $4,557,204 |

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

**Condensed Consolidating Statement of Operations**

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Revenue: | | | | |
| Solutions revenue | $ — | $ 307,586 | $ — | $ 307,586 |
| Postage revenue | — | 73,880 | — | 73,880 |
| Total revenue | — | 381,466 | — | 381,466 |
| Costs and expenses: | | | | |
| Cost of operations (exclusive of depreciation and amortization below) | — | 138,685 | — | 138,685 |
| Development and engineering | — | 16,494 | — | 16,494 |
| Sales, marketing, general and administrative | 1,043 | 68,470 | — | 69,513 |
| Customer postage | — | 73,880 | — | 73,880 |
| Depreciation and amortization | 301 | 65,598 | — | 65,899 |
| Accretion | 1,721 | — | — | 1,721 |
| Impairment of long-lived assets | — | 20 | — | 20 |
| Operating income (loss) | (3,065) | 18,319 | — | 15,254 |
| Equity in earnings of consolidated subsidiaries | (13,956) | — | 13,956 | — |
| Interest expense, net | 20,773 | 25,761 | — | 46,534 |
| Income (loss) before income tax provision (benefit) | (9,882) | (7,442) | (13,956) | (31,280) |
| Income tax provision (benefit) | (11,306) | (21,398) | — | (32,704) |
| Net income (loss) | $ 1,424 | $ 13,956 | $ (13,956) | $ 1,424 |

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

**Condensed Consolidating Statement of Operations**

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Revenue: | | | | |
| Solutions revenue | $ — | $ 287,946 | $ — | $ 287,946 |
| Postage revenue | — | 89,839 | — | 89,839 |
| Total revenue | — | 377,785 | — | 377,785 |
| Costs and expenses: | | | | |
| Cost of operations (exclusive of depreciation and amortization below) | 15 | 129,370 | — | 129,385 |
| Development and engineering | — | 11,651 | — | 11,651 |
| Sales, marketing, general and administrative | 1,974 | 54,745 | — | 56,719 |
| Customer postage | — | 89,839 | | 89,839 |
| Depreciation and amortization | 33,133 | 52,684 | — | 85,817 |
| Accretion | 6,458 | — | — | 6,458 |
| Impairment of long-lived assets | — | 219 | — | 219 |
| Operating income (loss) | (41,580) | 39,277 | — | (2,303) |
| Equity in earnings of consolidated subsidiaries | (7,126) | — | 7,126 | — |
| Interest expense, net | 28,108 | 17,433 | — | 45,541 |
| Contingent consideration | — | (4,660) | — | (4,660) |
| Income (loss) before income tax provision (benefit) | (62,562) | 26,504 | (7,126) | (43,184) |
| Income tax provision (benefit) | (29,184) | 19,378 | — | (9,806) |
| Net income (loss) | $ (33,378) | $ 7,126 | $ (7,126) | $ (33,378) |

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

**Condensed Consolidating Statement of Operations**

| | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Revenue: | | | | |
| Solutions revenue | $ — | $ 942,362 | $ — | $ 942,362 |
| Postage revenue | — | 234,205 | — | 234,205 |
| Total revenue | — | 1,176,567 | — | 1,176,567 |
| Costs and expenses: | | | | |
| Cost of operations (exclusive of depreciation and amortization below) | — | 430,216 | — | 430,216 |
| Development and engineering | — | 46,015 | — | 46,015 |
| Sales, marketing, general and administrative | 7,403 | 202,974 | — | 210,377 |
| Customer postage | — | 234,205 | — | 234,205 |
| Depreciation and amortization | 903 | 187,979 | — | 188,882 |
| Accretion | 10,645 | — | — | 10,645 |
| Impairment of long-lived assets | — | 251 | — | 251 |
| Operating income (loss) | (18,951) | 74,927 | — | 55,976 |
| Equity in earnings of consolidated subsidiaries | (15,868) | — | 15,868 | — |
| Interest expense, net | 62,470 | 77,250 | — | 139,720 |
| Income (loss) before income tax provision (benefit) | (65,553) | (2,323) | (15,868) | (83,744) |
| Income tax provision (benefit) | (36,165) | (18,191) | — | (54,356) |
| Net income (loss) | $ (29,388) | $ 15,868 | $ (15,868) | $ (29,388) |

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

**Condensed Consolidating Statement of Operations**

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Revenue | | | | |
| Solutions revenue | $ — | $ 810,162 | $ — | $ 810,162 |
| Postage revenue | — | 268,119 | — | 268,119 |
| Total revenue | — | 1,078,281 | — | 1,078,281 |
| Costs and expenses: | | | | |
| Cost of operations (exclusive of depreciation and amortization below) | 15 | 371,844 | — | 371,859 |
| Development and engineering | — | 32,600 | — | 32,600 |
| Sales, marketing, general and administrative | 7,828 | 144,127 | — | 151,955 |
| Customer postage | — | 268,119 | — | 268,119 |
| Depreciation and amortization | 37,633 | 145,813 | — | 183,446 |
| Accretion | 15,254 | — | — | 15,254 |
| Impairment of long-lived assets | — | 1,180 | — | 1,180 |
| Operating income (loss) | (60,730) | 114,598 | — | 53,868 |
| Equity in earnings of consolidated subsidiaries | (48,664) | — | 48,664 | — |
| Interest expense, net | 74,697 | 46,988 | — | 121,685 |
| Contingent consideration | — | (4,825) | — | (4,825) |
| Income (loss) before income tax provision (benefit) | (86,763) | 72,435 | (48,664) | (62,992) |
| Income tax provision (benefit) | (54,841) | 23,771 | — | (31,070) |
| Net income (loss) | $ (31,922) | $ 48,664 | $ (48,664) | $ (31,922) |

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

**Condensed Consolidating Statement of Comprehensive Income (Loss)**

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Net income (loss) | $ 1,424 | $ 13,956 | $ (13,956) | $ 1,424 |
| Other comprehensive income (loss): | | | | |
| Changes in fair value of interest rate swap, net of taxes | 330 | — | — | 330 |
| Foreign currency translation adjustment | — | (70) | — | (70) |
| Equity in other comprehensive earnings | (70) | — | 70 | — |
| Other comprehensive income (loss) | 260 | (70) | 70 | 260 |
| Total comprehensive income (loss) | $ 1,684 | $ 13,886 | $ (13,886) | $ 1,684 |

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

**Condensed Consolidating Statement of Comprehensive Income (Loss)**

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Net income (loss) | $ (33,378) | $ 7,126 | $ (7,126) | $ (33,378) |
| Other comprehensive income (loss): | | | | |
| Changes in fair value of interest rate swap, net of taxes | 6 | — | — | 6 |
| Foreign currency translation adjustment | — | (347) | — | (347) |
| Equity in other comprehensive earnings | (347) | — | 347 | — |
| Other comprehensive income (loss) | (341) | (347) | 347 | (341) |
| Total comprehensive income (loss) | $ (33,719) | $ 6,779 | $ (6,779) | $ (33,719) |

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

**Condensed Consolidating Statement of Comprehensive Income (Loss)**

| | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Net income (loss) | $ (29,388) | $ 15,868 | $ (15,868) | $ (29,388) |
| Other comprehensive income (loss): | | | | |
| Changes in fair value of interest rate swap, net of taxes | (2,303) | — | — | (2,303) |
| Foreign currency translation adjustment | — | 240 | — | 240 |
| Equity in other comprehensive earnings | 240 | — | (240) | — |
| Other comprehensive income (loss) | (2,063) | 240 | (240) | (2,063) |
| Total comprehensive income (loss) | $ (31,451) | $ 16,108 | $ (16,108) | $ (31,451) |

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

**Condensed Consolidating Statement of Comprehensive Income (Loss)**

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| Net income (loss) | $ (31,922) | $ 48,664 | $ (48,664) | $ (31,922) |
| Other comprehensive income (loss): | | | | |
| Changes in fair value of interest rate swap, net of taxes | (445) | — | — | (445) |
| Foreign currency translation adjustment | — | (531) | — | (531) |
| Equity in other comprehensive earnings | (531) | — | 531 | — |
| Other comprehensive income (loss) | (976) | (531) | 531 | (976) |
| Total comprehensive income (loss) | $ (32,898) | $ 48,133 | $ (48,133) | $ (32,898) |

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

**Condensed Consolidating Statement of Cash Flows**

| | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| **Operating activities** | | | | |
| Net income (loss) | $ (29,388) | $ 15,868 | $ (15,868) | $ (29,388) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 903 | 187,979 | — | 188,882 |
| Accretion | 10,645 | — | — | 10,645 |
| Equity compensation | 286 | 7,803 | — | 8,089 |
| Deferred income tax expense (benefit) | (36,165) | (18,466) | — | (54,631) |
| Amortization of debt discount and issuance costs | 3,250 | 6,974 | — | 10,224 |
| Impairment of long-lived assets | — | 251 | — | 251 |
| Equity in earnings of consolidated subsidiaries | (15,868) | — | 15,868 | — |
| Other | (1,497) | 80 | — | (1,417) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | — | 3,489 | — | 3,489 |
| Prepaid expenses and other | (323) | (8,021) | — | (8,344) |
| Accounts payable | 284 | (4,123) | — | (3,839) |
| Accrued expenses, deferred revenue and other liabilities | 12,372 | 8,679 | — | 21,051 |
| Due to/from affiliates | 60,648 | (60,648) | — | — |
| Net cash provided (used in) by operating activities | 5,147 | 139,865 | — | 145,012 |
| **Investing activities** | | | | |
| Purchases of property and equipment | — | (53,830) | — | (53,830) |
| Payments for acquisitions, net of cash acquired | — | 1,502 | — | 1,502 |
| Purchases of technology-based intangible assets | — | (43,495) | — | (43,495) |
| Investment in subsidiaries, net | (2,930) | — | 2,930 | — |
| Net cash provided by (used in) investing activities | (2,930) | (95,823) | 2,930 | (95,823) |
| **Financing activities** | | | | |
| Distributions from (to) Change Healthcare Holdings, Inc., net | — | 2,930 | (2,930) | — |
| Payments on Term Loan Facility | (272) | (13,618) | — | (13,890) |
| Payments of deferred financing obligations | — | (7,621) | — | (7,621) |
| Repurchase of Parent common stock | (1,884) | — | — | (1,884) |
| Net cash provided by (used in) financing activities | (2,156) | (18,309) | (2,930) | (23,395) |
| Net increase (decrease) in cash and cash equivalents | 61 | 25,733 | — | 25,794 |
| Cash and cash equivalents at beginning of period | 738 | 65,917 | — | 66,655 |
| Cash and cash equivalents at end of period | $ 799 | $ 91,650 | $ — | $ 92,449 |

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

**Condensed Consolidating Statement of Cash Flows**

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Change Healthcare Holdings, Inc. | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| **Operating activities** | | | | |
| Net income (loss) | $ (31,922) | $ 48,664 | $ (48,664) | $ (31,922) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 37,633 | 145,813 | — | 183,446 |
| Accretion | 15,254 | — | — | 15,254 |
| Equity compensation | 229 | 6,585 | — | 6,814 |
| Deferred income tax expense (benefit) | (24,167) | (3,476) | — | (27,643) |
| Amortization of debt discount and issuance costs | 2,353 | 5,088 | — | 7,441 |
| Contingent consideration | — | (4,825) | — | (4,825) |
| Impairment of long-lived assets | — | 1,180 | — | 1,180 |
| Equity in earnings of consolidated subsidiaries | (48,664) | — | 48,664 | — |
| Other | (1,488) | 14 | — | (1,474) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | — | 6,147 | — | 6,147 |
| Prepaid expenses and other | (30,546) | 18,872 | — | (11,674) |
| Accounts payable | — | 10,517 | — | 10,517 |
| Accrued expenses, deferred revenue and other liabilities | 16,627 | (17,545) | — | (918) |
| Due to/from affiliates | (347,949) | 347,949 | — | — |
| Net cash provided by (used in) operating activities | (412,640) | 564,983 | — | 152,343 |
| **Investing activities** | | | | |
| Purchases of property and equipment | — | (39,175) | — | (39,175) |
| Payments for acquisitions, net of cash acquired | — | (717,669) | — | (717,669) |
| Purchased of technology-based intangible assets | — | (3,676) | — | (3,676) |
| Investment in subsidiaries, net | 1,019 | — | (1,019) | — |
| Net cash provided by (used in) investing activities | 1,019 | (760,520) | (1,019) | (760,520) |
| **Financing activities** | | | | |
| Distributions from (to) Change Healthcare Holdings, Inc., net | — | (1,019) | 1,019 | — |
| Proceeds from Term Loan Facility | 8,274 | 377,137 | — | 385,411 |
| Proceeds from Senior Notes | 243,453 | — | — | 243,453 |
| Payments on Term Loan Facility | (229) | (11,641) | — | (11,870) |
| Proceeds from Revolving Facility | — | 60,000 | — | 60,000 |
| Payments on Revolving Facility | — | (60,000) | — | (60,000) |
| Payment of debt assumed from acquisition | — | (154,469) | — | (154,469) |
| Payments of deferred financing obligations | — | (6,173) | — | (6,173) |
| Repurchase of Parent common stock | (4,351) | — | — | (4,351) |
| Capital contribution from Investor Group and management | 166,881 | — | — | 166,881 |
| Payment of contingent consideration | — | (5,553) | — | (5,553) |
| Other | (2,500) | — | — | (2,500) |
| Net cash provided by (used in) financing activities | 411,528 | 198,282 | 1,019 | 610,829 |
| Net increase (decrease) in cash and cash equivalents | (93) | 2,745 | — | 2,652 |
| Cash and cash equivalents at beginning of period | 796 | 81,510 | — | 82,306 |
| Cash and cash equivalents at end of period | $ 703 | $ 84,255 | $ — | $ 84,958 |

## 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, 2015 ("Form 10-K") and Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 on file with the Securities and Exchange Commission ("SEC") and elsewhere in the Quarterly Report.

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

### Forward-Looking Statements

This Quarterly Report includes certain forward-looking statements within the meaning of the federal securities laws regarding, among other things, our or our management's intentions, plans, beliefs, expectations or predictions of future events, which are considered forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "may," "will," "should," "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions. These 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, Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and elsewhere in the Quarterly Report. 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, Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and elsewhere in the Quarterly Report, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

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

### Overview

We are a leading provider of software and analytics, network solutions and technology-enabled services that optimize communications, payments and actionable insights designed to enable smarter healthcare. Our integrated capabilities enable our customers to exchange mission-critical information, optimize revenue opportunities, control costs, increase cash flow and efficiently manage complex healthcare workflows. The foundation of our solutions is the Change Healthcare Intelligent Healthcare Network™, which facilitates the capture and standardization of healthcare data seamlessly in our customers' workflow. Our intelligent healthcare platform underpins the United States healthcare system, benefiting all major healthcare stakeholders: commercial and governmental payers, employers, hospitals, physician practices, dentists, laboratories, pharmacies and consumers.

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 for our customers; (ii) network solutions, which leverages our healthcare information network to optimize information exchange and workflows among healthcare system participants; and (iii) technology-enabled services, which provides communication and payment, 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, risk adjustment, quality reporting, data and analytics and engagement solutions. Through our network solutions segment, we provide financial and administrative information exchange solutions for medical, pharmacy and dental claims management and other standardized healthcare transactions, including clinical information exchange capabilities. Through our technology-enabled services segment, we provide communication and payment, 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, dentists, 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. 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.

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

In addition to our internal development efforts, we actively evaluate opportunities to improve and expand our solutions through strategic acquisitions. We focus 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 the 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.

While we believe the ACA, through an increased number of people with health insurance coverage, has contributed increasing transaction volumes in our network solutions segment, we believe ACA has negatively impacted our eligibility and enrollment solutions within our technology-enabled services segment as a result of expanded coverage of uninsured individuals, particularly in opt-in states, and changes in federal and state reimbursement patterns and rates. We are seeking to mitigate the impact of ACA on the market for eligibility and enrollment solutions by offering additional value-added solutions to our customers. In addition, we are unable to predict how providers, payers, pharmacies and other healthcare market participants will continue to respond to the various other reform provisions of the ACA, and we cannot be sure that the markets for our solutions will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

Demographic trends affecting the healthcare industry, such as population growth and aging or unemployment rates, also could affect the frequency and nature of our customers' healthcare transactional activity. The impact of such changes could impact our revenues, cost of operations and infrastructure expenses and thereby affect our results of operations and the way we operate our business. For example, if an increase in the United States population is accompanied by an increase in the United States population that has health insurance benefits, or if the aging of the United States population requires an overall increased need for healthcare services, there may be 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.

**Recent Developments**

*Agreement of Contribution and Sale*

On June 28, 2016, Change Healthcare, Inc., our indirect parent ("Parent"), and its controlling stockholders—affiliates of The Blackstone Group L.P. ("Blackstone") and Hellman & Friedman ("H&F")—entered into an Agreement of Contribution and Sale (the "Contribution Agreement") with McKesson Corporation ("McKesson"). Under the terms of the Contribution Agreement, Parent stockholders and McKesson have agreed to form a joint venture ("NewCo") that combines the majority of the McKesson Technology Solutions businesses ("MTS") with Change Healthcare's businesses, including substantially all of the assets and operations of the Company, but excluding the Company's pharmacy claims switching and prescription routing businesses (the "MTS Transaction"). McKesson will retain its Enterprise Information Solutions business and its RelayHealth Pharmacy Network and the Company's pharmacy claims switching and prescription routing businesses will be retained by Parent stockholders.

Pursuant to the terms of the Contribution Agreement, (i) Parent stockholders will, directly and indirectly, transfer ownership of Parent to NewCo in consideration of (a) the payment at the closing of the MTS Transaction by NewCo to Parent stockholders and certain participants in the Change Healthcare Amended and Restated 2009 Equity Incentive Plan (the "Parent Equity Plan") of approximately $1.75 billion and (b) the issuance to Parent stockholders of membership interests representing approximately 30% of NewCo's equity interests; and (ii) McKesson will cause MTS to be transferred to NewCo in consideration of (a) NewCo's assumption, and subsequent repayment to McKesson at the closing of the MTS Transaction, of a promissory note in the aggregate principal amount of approximately $1.25 billion, (b) the issuance of membership interests in NewCo representing approximately 70% of NewCo's equity interests and (c) a tax receivable agreement from NewCo. Actual cash payment and equity amounts are subject to certain adjustments in accordance with the Contribution Agreement.

In connection with the MTS Transaction, NewCo has entered into a commitment letter with Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Bank USA, Barclays Bank PLC and Citigroup Global Markets Inc. pursuant to which subsidiaries of NewCo have obtained debt financing commitments for $6.1 billion in long-term funded debt and a $500 million revolving credit facility. The proceeds of the committed debt financing will be used to make all payments to Parent stockholders and McKesson described above, to refinance certain of the Company's existing indebtedness and to pay fees and expenses incurred in connection with the MTS Transaction. The revolving credit commitments also will be available for ongoing working capital and other general corporate purposes of subsidiaries of NewCo following completion of the MTS Transaction.

We have incurred and expect to continue to incur significant other expenses related to the MTS Transaction, a portion of which may be shared with MTS or reimbursed by Newco upon completion of the MTS transaction. Specific amounts to be shared or reimbursed by Newco are subject to further refinement based upon specific agreement among the parties to the MTS Transaction. As a result, initial estimates could differ materially from final determined amounts. For the nine months ended September 30, 2016, we have recognized approximately $15.8 million of expense related to such costs, net of expected reimbursements.

Upon closing of the MTS Transaction, we also expect to incur a significant charge related to the accelerated vesting of a portion of outstanding stock-based awards under the Parent Equity Plan and other incentive awards. Additionally, because the MTS Transaction will qualify as a covered change in control under certain of our tax receivable agreements, we could be required to make payments in the future that significantly exceed actual cash tax savings from the tax benefits giving rise to such payments.

The MTS Transaction is subject to various closing conditions, including the expiration or termination of the waiting period under applicable antitrust laws, the completion of the committed debt financing described above, the delivery of audited financial statements for MTS, the separation of our pharmacy claims switching and prescription routing businesses and other customary closing conditions. The Contribution Agreement may be terminated by McKesson and/or Parent under certain circumstances, including if the MTS Transaction is not consummated by June 28, 2017, or if there is a change in tax law or certain relevant facts such that a party's respective tax advisor will be unable to render a favorable tax opinion at the closing of the MTS Transaction as to the tax-free nature of certain elements of the MTS Transaction affecting such party.

On August 31, 2016, McKesson received a request for additional information and documentary materials from the U.S. Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976. We continue to anticipate that the MTS Transaction will be completed in the first half of calendar year 2017.

*Revolver Amendment*

In September 2016, through an amendment to our senior secured credit agreement (the “Senior Credit Agreement”), we extended the maturity date in respect of $96.6 million of our senior secured revolving credit facility (the “Revolving Facility”) to August 2018. The remaining $28.4 million of the Revolving Facility that was available as of September 30, 2016, subsequently expired on November 2, 2016.

**Our Revenues and Expenses**

We generate virtually all of our revenue by using technology solutions 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, per provider 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 material costs related to our communication and payment 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 communication and payment 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 communication and payment solutions. Our postage costs and related revenues increase as our communication and payment solutions volumes increase and are also impacted when the United States Postal Service (“USPS”) changes postage rates. Although the USPS historically has increased postage rates annually, including in May 2015, postage rates decreased in April 2016. Accordingly, the frequency and nature of such changes in postage rates 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. The amount of depreciation and amortization expense is affected by the level of our recent investment in property and equipment, acquisition activity, asset impairments and certain changes in estimates.

Our interest expense consists principally of cash interest associated with our long-term debt obligations (including the effects of our interest rate derivative financial instruments) 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, state tax apportionment changes 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 significant acquisition transactions since January 1, 2015 and affected segments:

| Date | Business | Description | Affected Segment |
|---|---|---|---|
| August 2015 | Altegra Health, Inc. (“Altegra Health”) | Technology-enabled provider of analytical and reporting solutions for risk adjustment, member engagement and quality analysis | Software and Analytics; Technology-enabled Services |

### *MTS Transaction-related Costs*

We have incurred and expect to incur in the future significant costs in relation to the MTS Transaction. Such costs have consisted primarily of legal, tax and consulting related fees and have generally been reflected within sales, general and administrative expense in the accompanying consolidated statements of operations.

### *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 and improve productivity within product development and operations. The implementation of these measures often involves upfront cash costs related to severance, professional fees, contractor costs and/or capital expenditures, with the cost savings or other improvements not realized until the measures are successfully completed. Additionally, we may recognize impairment charges as a result of such initiatives.

### *Income Taxes*

Our blended statutory federal and state income tax rates range from 37% to 45%. The following table and subsequent commentary reconciles our federal statutory rate to our effective income tax rate and describes the more significant reconciling factors:

| | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|
| Statutory U.S. federal tax rate | 35.0% | 35.0% |
| State income taxes (net of federal benefit) | 30.5 | 15.1 |
| MTS Transaction expenses | (3.2) | — |
| Contingent consideration | — | 2.7 |
| Tax receivable agreement | 0.9 | (2.4) |
| Other | 1.7 | (1.1) |
| Effective income tax rate | 64.9% | 49.3% |

*State Income Taxes*—Our effective tax rate for state income taxes is generally impacted by changes in our apportionment following the filing of our annual tax returns, as well as the impact of discrete events.

In May 2015, the state of Tennessee enacted the Tennessee Revenue Modernization Act, which changed the manner in which our Tennessee apportionment is determined.

In December 2015, we simplified our legal organizational structure for which the primary economic effect was to enable us to realize deferred tax assets for state income tax purposes that we previously had concluded were not likely to be realized. In July 2016, the Company further simplified its legal organizational structure which affected apportionment of state income taxes.

*MTS Transaction expenses*—During the nine months ended September 30, 2016, the Company incurred transaction expenses in connection with the proposed MTS Transaction for which no income tax deduction is anticipated.

*Tax Receivable Agreement*—In connection with our tax receivable agreements, we are required to accrete the present value of the obligations to the amount of the total expected payments. This accretion, though recognized as an expense for book purposes, results in no tax deduction.

### *Amendments to the Senior Credit Agreement and New Senior Notes*

In August 2015, we borrowed an additional $395.0 million under incremental term loan facilities through an amendment to our Senior Credit Agreement governing our senior secured term loan facility (as amended, the “Term Loan Facility”) and Revolving Facility (collectively with the Term Loan Facility, the “Senior Credit Facilities”).

In August 2015, we borrowed $250.0 million by issuing new 6% senior notes due 2021 (the “2021 Notes”).

## 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.

During 2016, following further integration of engagement solutions, formerly a separate reporting unit, with the other components of the software and analytics operating segment, we determined that engagement solutions was economically similar to the other components of the software and analytics operating segment. As a result, software and analytics, network solutions and technology-enabled services now represent both our operating segments and reporting units.

Except for the change in our identified reporting units, there have been no significant changes during the nine months ended September 30, 2016 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 and nine months ended September 30, 2016 and 2015, respectively (amounts in thousands):

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2016 | | September 30, 2015 | | September 30, 2016 | | September 30, 2015 | |
| | Amount | % of Revenue(1) | Amount | % of Revenue(1) | Amount | % of Revenue(1) | Amount | % of Revenue(1) |
| Revenue: | | | | | | | | |
| Solutions revenue | $307,586 | 80.6% | $287,946 | 76.2% | $ 942,362 | 80.1% | $ 810,162 | 75.1% |
| Postage revenue | 73,880 | 19.4 | 89,839 | 23.8 | 234,205 | 19.9 | 268,119 | 24.9 |
| Total revenue | 381,466 | 100.0 | 377,785 | 100.0 | 1,176,567 | 100.0 | 1,078,281 | 100.0 |
| Cost and expenses: | | | | | | | | |
| Cost of operations (exclusive of depreciation and amortization below) | 138,685 | 45.1 | 129,385 | 44.9 | 430,216 | 45.7 | 371,859 | 45.9 |
| Development and engineering | 16,494 | 5.4 | 11,651 | 4.0 | 46,015 | 4.9 | 32,600 | 4.0 |
| Sales, marketing, general and administrative | 69,513 | 22.6 | 56,719 | 19.7 | 210,377 | 22.3 | 151,955 | 18.8 |
| Customer postage | 73,880 | 19.4 | 89,839 | 23.8 | 234,205 | 19.9 | 268,119 | 24.9 |
| Depreciation and amortization | 65,899 | 17.3 | 85,817 | 22.7 | 188,882 | 16.1 | 183,446 | 17.0 |
| Accretion | 1,721 | 0.5 | 6,458 | 1.7 | 10,645 | 0.9 | 15,254 | 1.4 |
| Impairment of long-lived assets | 20 | 0.0 | 219 | 0.1 | 251 | 0.0 | 1,180 | 0.1 |
| Operating income (loss) | 15,254 | 4.0 | (2,303) | (0.6) | 55,976 | 4.8 | 53,868 | 5.0 |
| Interest expense, net | 46,534 | 12.2 | 45,541 | 12.1 | 139,720 | 11.9 | 121,685 | 11.3 |
| Contingent consideration | — | — | (4,660) | (1.2) | — | — | (4,825) | (0.4) |
| Income (loss) before income tax provision (benefit) | (31,280) | (8.2) | (43,184) | (11.4) | (83,744) | (7.1) | (62,992) | (5.8) |
| Income tax provision (benefit)(2) | (32,704) | (8.6) | (9,806) | (2.6) | (54,356) | (4.6) | (31,070) | (2.9) |
| Net income (loss)(2) | $ 1,424 | 0.4% | $ (33,378) | (8.8)% | $ (29,388) | (2.5)% | $ (31,922) | (3.0)% |

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

(2) As described in Note 1 to the unaudited condensed consolidated financial statements and related notes included in this Quarterly Report, certain of this data has been restated.

**Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015**

***Solutions Revenues***

Our solutions revenues were $307.6 million for the three months ended September 30, 2016 as compared to $287.9 million for the three months ended September 30, 2015, an increase of $19.6 million, or 6.8%. Factors affecting our solutions revenues are described in the various segment discussions below.

***Cost of Operations***

Our total cost of operations was $138.7 million for the three months ended September 30, 2016 as compared to $129.4 million for the three months ended September 30, 2015, an increase of $9.3 million, or 7.2%. The increase in our cost of operations is primarily due to the impact of acquired businesses. As a percentage of solutions revenue, our cost of operations was 45.1% for the three months ended September 30, 2016 as compared to 44.9% for the three months ended September 30, 2015.

### *Development and Engineering Expense*

Our total development and engineering expense was $16.5 million for the three months ended September 30, 2016 as compared to $11.7 million for the three months ended September 30, 2015, an increase of $4.8 million, or 41.6%. The increase in our development and engineering expense is primarily due to the impact of acquired businesses and continued enhancements and development of existing and new solutions.

### *Sales, Marketing, General and Administrative Expense*

Our total sales, marketing, general and administrative expense was $69.5 million for the three months ended September 30, 2016 as compared to $56.7 million for the three months ended September 30, 2015, an increase of $12.8 million, or 22.6%. The increase in our sales, marketing, general and administrative expense was primarily due to costs related to the MTS Transaction, business growth, including the impact of acquired businesses, and increased strategic initiatives, partially offset by productivity improvements and efficiency measures.

***Postage***

Our postage revenue and customer postage expense was $73.9 million for the three months ended September 30, 2016 as compared to $89.8 million for the three months ended September 30, 2015, a decrease of $16.0 million, or 17.8%. This decrease in postage revenue and corresponding expense was primarily due to volume decreases in our technology-enabled services segment and the impact of the USPS rate decrease effective in April 2016.

***Depreciation and Amortization Expense***

Our depreciation and amortization expense was $65.9 million for the three months ended September 30, 2016 as compared to $85.8 million for the three months ended September 30, 2015, a decrease of $19.9 million, or 23.2%. This decrease was primarily due to the acceleration of amortization in the prior year period of our former tradename, which was partially offset by the impact of acquired businesses, as well as purchases of property and equipment and technology-based intangible assets.

***Accretion Expense***

Our accretion expense was $1.7 million for the three months ended September 30, 2016 as compared to $6.5 million for the three months ended September 30, 2015. 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 $46.5 million for the three months ended September 30, 2016 as compared to $45.5 million for the three months ended September 30, 2015, an increase of $1.0 million, or 2.2%. This increase was primarily due to the impact of the August 2015 incremental term loan and the 2021 Notes, partially offset by scheduled principal payments of term loans under the Senior Credit Facilities.

***Income Taxes***

Our income tax benefit was $32.7 million for the three months ended September 30, 2016 as compared to $9.8 million for the three months ended September 30, 2015. Our effective tax rate was 104.6% for the three months ended September 30, 2016 as compared to 22.7% for the three months ended September 30, 2015. The effective tax rate for both periods was primarily affected by changes in state tax laws, rates and apportionment.

**Segment Revenues and Adjusted EBITDA**

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

The segment profit measure primarily utilized by management is adjusted EBITDA which is defined as EBITDA (defined as net income (loss) before net interest expense, income tax provision (benefit) and depreciation and amortization), plus certain other non-cash or non-operating items. The non-cash or other non-operating items affecting the segment profit measure generally include MTS Transaction costs, equity compensation; acquisition accounting adjustments; acquisition-related costs; strategic initiatives, duplicative and transition costs; severance 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):

| | September 30, 2016 | September 30, 2015 | $ Change |
|---|---|---|---|
| Solutions revenue | $ 125,082 | $ 97,766 | $27,316 |
| Adjusted EBITDA | $ 46,310 | $ 34,020 | $12,290 |

Software and analytics revenue for the three months ended September 30, 2016 increased by $27.3 million, or 27.9%, as compared to the prior year period. This increase was primarily driven by $18.8 million related to the impact of the Altegra Health acquisition and new sales and implementations.

Software and analytics adjusted EBITDA for the three months ended September 30, 2016 increased by $12.3 million, or 36.1%, 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. As a percentage of solutions revenue, software and analytics adjusted EBITDA was 37.0% for the three months ended September 30, 2016 as compared to 34.8% for the three months ended September 30, 2015. The increase in our software and analytics adjusted EBITDA as a percentage of solutions revenue is primarily due to continued growth in our payment integrity and electronic payment solutions, partially offset by changes in revenue mix as a result of the Altegra Health acquisition.

***Network Solutions***

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

| | September 30, 2016 | September 30, 2015 | $ Change |
|---|---|---|---|
| Solutions revenue | $ 93,814 | $ 93,415 | $ 399 |
| Adjusted EBITDA | $ 51,847 | $ 50,908 | $ 939 |

Network solutions revenue for the three months ended September 30, 2016 increased by $0.4 million, or 0.4%, as compared to the prior year period primarily due to increased volumes and new sales and implementations, partially offset by customer attrition.

Network solutions adjusted EBITDA for the three months ended September 30, 2016 increased by $0.9 million, or 1.8%, as compared to the prior year period. As a percentage of solutions revenue, network solutions adjusted EBITDA was 55.3% for the three months ended September 30, 2016 as compared to 54.5% for the three months ended September 30, 2015. 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 efficiency measures.

***Technology-enabled Services***

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

| | September 30, 2016 | September 30, 2015 | $ Change |
|---|---|---|---|
| Solutions revenue | $ 96,455 | $ 103,720 | $ (7,265) |
| Adjusted EBITDA | $ 31,178 | $ 36,499 | $ (5,321) |

Technology-enabled services revenue for the three months ended September 30, 2016 decreased by $7.3 million, or 7.0%, as compared to the prior year period. This decrease was primarily due to decreased volumes in our communication and payment solutions, the effects of changing reimbursement patterns and rates of federal and state payers related to our eligibility and enrollment solutions and customer attrition, partially offset by new sales and implementations.

Technology-enabled services adjusted EBITDA for the three months ended September 30, 2016 decreased by $5.3 million, or 14.6%, as compared to the prior year period. As a percentage of solutions revenue, technology-enabled services adjusted EBITDA was 32.3% for the three months ended September 30, 2016 as compared to 35.2% for the prior year period. The decrease 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 and changes in revenue mix, partially offset by productivity improvements and other efficiency measures.

**Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015**

***Solutions Revenues***

Our solutions revenues were $942.4 million for the nine months ended September 30, 2016 as compared to $810.2 million for the nine months ended September 30, 2015, an increase of $132.2 million, or 16.3%. Factors affecting our solutions revenues are described in the various segment discussions below.

***Cost of Operations***

Our total cost of operations was $430.2 million for the nine months ended September 30, 2016 as compared to $371.9 million for the nine months ended September 30, 2015, an increase of $58.4 million, or 15.7%. The increase in our cost of operations is primarily due to the impact of acquired businesses. As a percentage of solutions revenue, our cost of operations was 45.7% for the nine months ended September 30, 2016 as compared to 45.9% for the nine months ended September 30, 2015.

***Development and Engineering Expense***

Our total development and engineering expense was $46.0 million for the nine months ended September 30, 2016 as compared to $32.6 million for the nine months ended September 30, 2015, an increase of $13.4 million, or 41.2%. The increase in our development and engineering expense is primarily due to the impact of acquired businesses and continued enhancements and development of existing and new solutions.

***Sales, Marketing, General and Administrative Expense***

Our total sales, marketing, general and administrative expense was $210.4 million for the nine months ended September 30, 2016 as compared to $152.0 million for the nine months ended September 30, 2015, an increase of $58.4 million, or 38.4%. The increase in our sales, marketing, general and administrative expense was primarily due to business growth, including the impact of acquired businesses, costs related to the MTS Transaction and increased strategic initiatives, partially offset by productivity improvements and efficiency measures.

***Postage***

Our postage revenue and customer postage expense was $234.2 million for the nine months ended September 30, 2016 as compared to $268.1 million for the nine months ended September 30, 2015, a decrease of $33.9 million, or 12.6%. This decrease in postage revenue and corresponding expense was primarily due to volume decreases in our technology-enabled services segment and the impact of the USPS rate decrease effective in April 2016.

***Depreciation and Amortization Expense***

Our depreciation and amortization expense was $188.9 million for the nine months ended September 30, 2016 as compared to $183.4 million for the nine months ended September 30, 2015, an increase of $5.4 million, or 3.0%. This increase was primarily due to the impact of acquired businesses, as well as purchases of property and equipment and technology-based intangible assets, partially offset by the acceleration of amortization in the prior year period of our former tradename.

***Accretion Expense***

Our accretion expense was $10.6 million for the nine months ended September 30, 2016 as compared to $15.3 million for the nine months ended September 30, 2015. 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 $139.7 million for the nine months ended September 30, 2016 as compared to $121.7 million for the nine months ended September 30, 2015, an increase of $18.0 million, or 14.8%. This increase was primarily due to the impact of the August 2015 incremental term loan and the 2021 Notes, partially offset by scheduled principal payments of term loans under the Senior Credit Facilities.

### *Income Taxes*

Our income tax benefit was $54.4 million for the nine months ended September 30, 2016 as compared to $31.1 million for the nine months ended September 30, 2015. Our effective tax rate was 64.9% for the nine months ended September 30, 2016 as compared to 49.3% for the nine months ended September 30, 2015. The effective tax rate for both periods was primarily affected by changes in state tax laws, rates and apportionment.

## Segment Revenues and Adjusted EBITDA

### *Software and Analytics*

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

| | September 30, 2016 | September 30, 2015 | $ Change |
|---|---|---|---|
| Solutions Revenue | $ 387,624 | $ 231,193 | $156,431 |
| Adjusted EBITDA | $ 134,092 | $ 77,837 | $ 56,255 |

Software and analytics revenue for the nine months ended September 30, 2016 increased by $156.4 million, or 67.7%, as compared to the prior year period. This increase was primarily driven by $131.2 million related to the impact of acquired businesses, including the Altegra Health acquisition, and new sales and implementations.

Software and analytics adjusted EBITDA for the nine months ended September 30, 2016 increased by $56.3 million, or 72.3%, 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 34.6% for the nine months ended September 30, 2016 as compared to 33.7% for the nine months ended September 30, 2015. The increase in our software and analytics adjusted EBITDA as a percentage of solutions revenue is primarily due to continued growth in our payment integrity and electronic payment solutions, partially offset by changes in revenue mix as a result of the Altegra Health acquisition.

### *Network Solutions*

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

| | September 30, 2016 | September 30, 2015 | $ Change |
|---|---|---|---|
| Solutions Revenue | $ 282,633 | $ 276,315 | $ 6,318 |
| Adjusted EBITDA | $ 153,985 | $ 146,570 | $ 7,415 |

Network solutions revenue for the nine months ended September 30, 2016 increased by $6.3 million, or 2.3%, as compared to the prior year period primarily due to increased volumes and new sales and implementations, partially offset by customer attrition.

Network solutions adjusted EBITDA for the nine months ended September 30, 2016 increased by $7.4 million, or 5.1%, as compared to the prior year period. As a percentage of solutions revenue, network solutions adjusted EBITDA was 54.5% for the nine months ended September 30, 2016 as compared to 53.0% for the nine months ended September 30, 2015. 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 efficiency measures.

***Technology-enabled Services***

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

| | September 30, 2016 | September 30, 2015 | $ Change |
|---|---|---|---|
| Solutions Revenue | $ 295,243 | $ 322,743 | $(27,500) |
| Adjusted EBITDA | $ 96,655 | $ 118,410 | $(21,755) |

Technology-enabled services revenue for the nine months ended September 30, 2016 decreased by $27.5 million, or 8.5%, as compared to the prior year period. This decrease was primarily due to decreased volumes in our communication and payment solutions, customer attrition, including the previously disclosed partial loss of a customer contract in the second quarter of 2014, and the effects of changing reimbursement patterns and rates of federal and state payers related to our eligibility and enrollment solutions, partially offset by new sales and implementations.

Technology-enabled services adjusted EBITDA for the nine months ended September 30, 2016 decreased by $21.8 million, or 18.4%, as compared to the prior year period. As a percentage of solutions revenue, technology-enabled services adjusted EBITDA was 32.7% for the nine months ended September 30, 2016 as compared to 36.7% for the prior year period. The decrease 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 and changes in revenue mix, partially offset by 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. The Revolving Facility expires in August 2018. 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 nine months ended September 30, 2016 was $145.0 million as compared to $152.3 million for nine months ended September 30, 2015, a decrease of $7.3 million. Cash flow from operations for the nine months ended September 30, 2016 was impacted by increased interest expense as a result of the Altegra Health acquisition and related financing and the timing of collections and related disbursements.

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

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2016 was $95.3 million as compared to $760.5 million for the nine months ended September 30, 2015. Cash used in investing activities for both such periods consisted of capital expenditures for property and equipment and technology-based intangible assets. In addition, cash used in investing activities for the nine months ended September 30, 2015 includes the Altegra Health acquisition.

Financing Activities

Cash used in financing activities for the nine months ended September 30, 2016 was $23.4 million as compared to cash provided by financing activities of $610.8 million for the nine months ended September 30, 2015. Cash used in financing activities for the nine months ended September 30, 2016 primarily consisted of principal payments under our Senior Credit Facilities and deferred financing arrangements. Cash provided by financing activities for the nine months ended September 30, 2015 primarily consisted of borrowings under our Senior Credit Facilities and 2021 Notes and capital contributions to partially finance the Altegra acquisition, principal payments under our Senior Credit Facilities and deferred financing arrangements and stock repurchases.

**Long-term Debt**

Our long-term indebtedness is comprised of the Term Loan Facility, the Revolving Facility, 11% senior notes due 2019 (the “2019 Notes”), 11.25% senior notes due 2020 (the “2020 Notes”) and the 2021 Notes (together with the 2019 Notes and 2020 Notes, the “Senior Notes”).

Long-term debt as of September 30, 2016 and December 31, 2015 consisted of the following (amounts in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| *Senior Credit Facilities* | | |
| $1,696 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $17,494 and $23,511 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 4.29%) | $ 1,615,308 | $ 1,621,981 |
| $160 million Senior Secured Term Loan facility, due November 2, 2018, net of unamortized discount of $2,483 and $3,334 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 4.54%) | 154,317 | 154,666 |
| $125 million Senior Secured Revolving Credit facility, $28.4 million expiring on November 2, 2016 and $96.6 million expiring on August 3, 2018, 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 $5,327 and $6,299 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 11.53%) | 369,673 | 368,701 |
| $375 million 11.25% Senior Notes due December 31, 2020, net of unamortized discount of $7,496 and $8,471 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 11.85%) | 367,504 | 366,529 |
| $250 million 6% Senior Notes due February 15, 2021, net of unamortized discount of $5,382 and $6,161 at September 30, 2016 and December 31, 2015, respectively (effective interest rate of 6.57%) | 244,618 | 243,839 |
| *Obligation under data sublicense agreement* | 10,810 | 10,810 |
| *Other* | 8,487 | 7,427 |
| Less current portion | (30,163) | (32,775) |
| Long-term debt | $ 2,740,554 | $ 2,741,178 |

***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 ($6.7 million outstanding as of September 30, 2016), 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%.

The interest rate on both the Term Loan Facility and Revolving Facility is 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.

In August 2015, through an amendment to the Senior Credit Agreement, we borrowed an additional $395.0 million under incremental term loan facilities on identical terms and having the same rights and obligations as the existing term loans under the Senior Credit Agreement.

In September 2016, through an amendment to the Senior Credit Agreement, we extended the maturity date in respect of $96.6 million of the Revolving Facility to August 2018. The remaining $28.4 million of the Revolving Facility that was available as of September 30, 2016, subsequently expired on November 2, 2016.

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

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

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

We are required to make quarterly payments equal to 0.25% of the aggregate principal amount of the loans under the Term Loan Facility, with the balance due and payable on November 2, 2018. Any principal amount outstanding under the Revolving Facility is due and payable on August 3, 2018.

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 Change Healthcare Intermediate Holdings, Inc., a direct wholly-owned subsidiary of Parent, 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 at 5.35 to 1.00 for the remaining term of the Senior Credit Facilities, 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;
- 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 September 30, 2016, 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. The 2021 Notes bear interest at an annual rate of 6.00% with interest payable semi-annually on April 15 and October 15 of each year. The 2021 Notes mature on February 15, 2021.

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.

We may redeem the 2021 Notes, in whole or in part, at any time on or after August 15, 2017 at the applicable redemption price, plus accrued and unpaid interest. At any time prior to August 15, 2017, we may, at our option and on one or more occasions, redeem up to 40% of the aggregate principal amount of the 2021 Notes at a redemption price equal to 100% of the aggregate principal amount, plus a premium and accrued and unpaid interest with the net cash proceeds of certain equity offerings. At any time prior to August 15, 2017, we may redeem the 2021 Notes, 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 a “make-whole 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 exceptions, 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 September 30, 2016, 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.

*Tax Receivable Agreement*—In connection with our tax receivable agreements, we are required to accrete the present value of the obligations to the amount of the total expected payments. This accretion, though recognized as an expense for book purposes, results in no tax deduction.

**Item 4. Controls and Procedures**

**Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management team, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of September 30, 2016, the end of the period covered by the Original Filing. Based on this evaluation, at the time of the Original Filing, our CEO and CFO originally concluded that our disclosure controls and procedures were effective as of September 30, 2016.

Subsequently, in connection with the restatement discussed in the Explanatory Note and in Note 1 to our unaudited condensed consolidated financial statements, management, including our CEO and CFO, re-assessed the effectiveness of our disclosure controls and concluded that such controls were not effective based on the identification of a material weakness.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Our management, including our CEO and CFO, previously concluded that we maintained effective internal control over financial reporting as of September 30, 2016. Because management has subsequently concluded that the material weakness described below existed, we have concluded that we did not maintain effective internal control over financial reporting based on the criteria in Internal Control – Integrated Framework (2013) issued by the COSO. Specifically, because of the highly complex nature of the underlying legal entity restructuring, the Company's internal control over financial reporting was not effective due to certain deferred tax positions resulting from purchase accounting and the conversion of a consolidated partnership subsidiary into a corporation for U.S. federal tax purposes. To address this matter, the Company has determined that, for future highly complex transactions for which the determination of the appropriate accounting treatment is unclear, the Company will assess whether to engage an accounting firm with sufficient expertise to properly evaluate and interpret the applicable accounting literature, if any, and to assist management to reach the appropriate accounting conclusion.

**Changes in Internal Control Over Financial Reporting**

Except as discussed above, there have been no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## 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.

| | |
|---|---|
| | CHANGE HEALTHCARE HOLDINGS, INC. |
| Date: January 24, 2017 | By: /s/ Neil E. de Crescenzo<br>Neil E. de Crescenzo, President and Chief Executive Officer and Director<br>(Principal Executive Officer) |
| Date: January 24, 2017 | By: /s/ Randy P. Giles<br>Randy P. Giles, Chief Financial Officer<br>(Principal Financial Officer) |
| Date: January 24, 2017 | By: /s/ Dennis B. Robbins<br>Dennis B. Robbins, Chief Accounting Officer<br>(Principal Accounting Officer) |

## Exhibit Index

| Exhibit No. | Description |
|---|---|
| 10.1 | Amendment No. 5 to the Credit Agreement, dated as of September 19, 2016, among the Company, the other borrowers party thereto, Bank of America, N.A., as administrative agent, swing line lender, letter of credit issuer and collateral agent thereunder, and the lenders, guarantors and agents party thereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-34435), filed on September 21, 2016, and incorporated herein by reference). |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith). |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith). |
| 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 Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

**Exhibit 31.1**

**SARBANES-OXLEY SECTION 302(a) CERTIFICATION**

I, Neil E. de Crescenzo, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Change Healthcare Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: January 24, 2017 | By: | /s/ Neil E. de Crescenzo |
| | Name: | Neil E. de Crescenzo |
| | Title: | Chief Executive Officer of Change Healthcare Holdings, Inc. |

**Exhibit 31.2**

**SARBANES-OXLEY SECTION 302(a) CERTIFICATION**

I, Randy P. Giles, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Change Healthcare Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 24, 2017

By: /s/ Randy P. Giles
Name: Randy P. Giles
Title: Chief Financial Officer of Change Healthcare Holdings, Inc.

**CERTIFICATION PURSUANT TO**

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

**AS ADOPTED PURSUANT TO**

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

In connection with Amendment No. 1 to the Quarterly Report of Change Healthcare Holdings, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Neil E. de Crescenzo, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in my capacity as an officer of the Company, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 24, 2017

By: /s/ Neil E. de Crescenzo
Name: Neil E. de Crescenzo
Title: Chief Executive Officer of Change Healthcare Holdings, Inc.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**

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

**AS ADOPTED PURSUANT TO**

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

In connection with Amendment No. 1 to the Quarterly Report of Change Healthcare Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy P. Giles, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in my capacity as an officer of the Company, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 24, 2017

| | |
|---|---|
| By: | /s/ Randy P. Giles |
| Name: | Randy P. Giles |
| Title: | Chief Financial Officer of Change Healthcare Holdings, Inc. |