

Change Healthcare Holdings, Inc.

Form 10-Q

August 10, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Commission file number 1-34435

CHANGE HEALTHCARE HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

20-5799664
(I.R.S. Employer

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Incorporation or Organization)

Identification No.)

3055 Lebanon Pike, Suite 1000

Nashville, TN

(Address of Principal Executive Offices)

37214

(Zip Code)

(615) 932-3000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Class	Outstanding as of August 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.

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Table of Contents**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)**

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,802	\$ 66,655
Accounts receivable, net of allowance for doubtful accounts of \$3,814 and \$3,379 at June 30, 2016 and December 31, 2015, respectively	317,404	280,858
Prepaid expenses and other current assets	47,825	35,413
Total current assets	376,031	382,926
Property and equipment, net	237,191	244,145
Goodwill	2,229,774	2,230,100
Intangible assets, net	1,673,185	1,707,863
Other assets, net	9,238	8,500
Total assets	\$ 4,525,419	\$ 4,573,534
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 31,127	\$ 27,950
Accrued expenses	156,950	167,169
Deferred revenues	18,794	12,943
Current portion of long-term debt	28,847	32,775
Total current liabilities	235,718	240,837
Long-term debt, excluding current portion	2,739,420	2,741,178
Deferred income tax liabilities	403,757	430,383
Tax receivable agreement obligations to related parties	182,418	173,493
Other long-term liabilities	16,777	11,954
Commitments and contingencies		
Equity:		
Common stock (par value, \$.01), 100 shares authorized and outstanding at June 30, 2016 and December 31, 2015, respectively		
Additional paid-in capital	1,322,510	1,319,754
Accumulated other comprehensive income (loss)	(4,979)	(2,656)
Accumulated deficit	(370,202)	(341,409)
Total equity	947,329	975,689
Total liabilities and equity	\$ 4,525,419	\$ 4,573,534

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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenue:				
Solutions revenue	\$ 323,278	\$ 263,805	\$ 634,775	\$ 522,216
Postage revenue	77,614	90,996	160,325	178,280
Total revenue	400,892	354,801	795,100	700,496
Costs and expenses:				
Cost of operations (exclusive of depreciation and amortization below)	144,365	121,288	291,531	242,474
Development and engineering	14,558	10,123	29,521	20,949
Sales, marketing, general and administrative	74,085	46,973	140,865	95,237
Customer postage	77,614	90,996	160,325	178,280
Depreciation and amortization	61,856	49,515	122,983	97,629
Accretion	5,690	3,818	8,924	8,797
Impairment of long-lived assets	165	122	231	961
Operating income (loss)	22,559	31,966	40,720	56,169
Interest expense, net	46,564	38,135	93,186	76,143
Contingent consideration		1,850		(165)
Income (loss) before income tax provision (benefit)	(24,005)	(8,019)	(52,466)	(19,809)
Income tax provision (benefit)	(10,668)	(15,947)	(23,673)	(21,987)
Net income (loss)	\$ (13,337)	\$ 7,928	\$ (28,793)	\$ 2,178

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income (loss)	\$ (13,337)	\$ 7,928	\$ (28,793)	\$ 2,178
Other comprehensive income (loss):				
Changes in fair value of interest rate swap, net of taxes	(1,704)	109	(2,633)	(451)
Foreign currency translation adjustment	(8)	92	310	(184)
Other comprehensive income (loss)	(1,712)	201	(2,323)	(635)
Total comprehensive income (loss)	\$ (15,049)	\$ 8,129	\$ (31,116)	\$ 1,543

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Change Healthcare Holdings, Inc.****Condensed Consolidated Statements of Equity**

(unaudited and amounts in thousands, except share amounts)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Capital	Deficit		Equity
Balance at January 1, 2015	100	\$	\$ 1,149,360	\$ (245,340)	\$ (1,955)	\$ 902,065
Equity compensation expense			4,183			4,183
Issuance of shares in connection with equity compensation plans, net of taxes			305			305
Repurchase of Parent common stock			(3,681)			(3,681)
Capital contribution from Parent			500			500
Net income (loss)				2,178		2,178
Foreign currency translation adjustment					(184)	(184)
Change in fair value of interest rate swap, net of taxes					(451)	(451)
Balance at June 30, 2015						