

Accretive Health, Inc.  
Form 10-Q  
November 09, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

COMMISSION FILE NUMBER: 001-34746

ACCRETIVE HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware

02-0698101

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

401 North Michigan Avenue Suite 2700 Chicago, Illinois 60611

(Address of principal executive offices)

(Zip code)

(312) 324-7820

(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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated

filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a 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

As of October 30, 2015, the registrant had 103,361,388 shares of common stock, par value \$0.01 per share, outstanding.



Accretive Health, Inc.  
FORM 10-Q

For the period ended September 30, 2015  
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## PART I — FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Accretive Health, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 137,716	\$ 145,167
Restricted cash	—	5,000
Accounts receivable, net	5,137	4,438
Prepaid income taxes	5,425	6,138
Current deferred tax assets	99,987	62,322
Other current assets	7,798	7,389
Total current assets	256,063	230,454
Property, equipment and software, net	26,579	14,594
Non-current deferred tax assets	208,278	201,163
Goodwill and other assets, net	6	162
Total assets	\$ 490,926	\$ 446,373
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 6,340	\$ 12,488
Current portion of customer liabilities	348,828	219,998
Accrued compensation and benefits	15,290	14,983
Other accrued expenses	12,261	15,680
Total current liabilities	382,719	263,149
Non-current portion of customer liabilities	323,293	317,065
Other non-current liabilities	8,421	8,405
Total liabilities	714,433	588,619
Stockholders' equity (deficit):		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 108,673,951 shares issued and 103,387,953 shares outstanding at September 30, 2015; 102,890,241 shares issued and 98,112,019 shares outstanding at December 31, 2014	1,087	1,029
Additional paid-in capital	317,543	307,075
Accumulated deficit	(487,220)	(397,517)
Accumulative other comprehensive loss	(2,465)	(1,763)
Treasury stock	(52,452)	(51,070)
Total stockholders' equity (deficit)	(223,507)	(142,246)
Total liabilities and stockholders' equity (deficit)	\$ 490,926	\$ 446,373
See accompanying notes to condensed consolidated financial statements		

## Accretive Health, Inc.

## Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Net services revenue	\$ 15,842	\$ 90,745	\$ 48,898	\$ 162,684
Operating expenses:				
Costs of services	45,326	45,370	130,284	138,251
Selling, general and administrative	21,395	16,785	59,726	53,609
Restatement and other	3,964	13,846	5,850	67,907
Total operating expenses	70,685	76,001	195,860	259,767
Income (loss) from operations	(54,843 )	14,744	(146,962 )	(97,083 )
Net interest income	73	100	147	252
Income (loss) before income tax provision	(54,770 )	14,844	(146,815 )	(96,831 )
Income tax provision (benefit)	(21,800 )	5,291	(57,112 )	(34,862 )
Net income (loss)	\$(32,970 )	\$ 9,553	\$(89,703 )	\$(61,969 )
Net Income (loss) per common share:				
Basic	\$(0.34 )	\$ 0.10	\$(0.93 )	\$(0.65 )
Diluted	\$(0.34 )	\$ 0.10	\$(0.93 )	\$(0.65 )
Weighted average shares used in calculating net income (loss) per common share:				
Basic	97,230,069	95,775,597	96,358,342	95,750,887
Diluted	97,230,069	97,250,282	96,358,342	95,750,887
Consolidated statements of comprehensive income (loss):				
Net income (loss)	(32,970 )	9,553	(89,703 )	(61,969 )
Other comprehensive income (loss):				
Foreign currency translation adjustments	(429 )	(253 )	(702 )	6
Comprehensive income (loss)	\$(33,399 )	\$ 9,300	\$(90,405 )	\$(61,963 )

See accompanying notes to condensed consolidated financial statements

Accretive Health, Inc.  
Condensed Consolidated Statements of Cash Flows  
(In thousands)

	Nine Months Ended September 30,	
	2015	2014
	(Unaudited)	
Operating activities:		
Net loss	\$(89,703)	\$(61,969)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Depreciation and amortization	6,556	4,279
Share-based compensation	22,974	22,992
Loss on disposal	—	234
Recoveries for doubtful receivables	(79)	(455)
Deferred income taxes	(58,567)	(33,869)
Excess tax benefits from share-based awards	—	(176)
Changes in operating assets and liabilities:		
Accounts receivable	(621)	16,539
Prepaid income taxes	632	2,646
Other assets	(334)	(2,328)
Accounts payable	(6,108)	685
Accrued compensation and benefits	311	1,960
Other liabilities	(3,648)	(4,228)
Customer liabilities	135,058	21,840
Net cash provided by (used in) operating activities	6,471	(31,850)
Investing activities:		
Purchases of property, equipment and software	(18,304)	(3,206)
Net cash used in investing activities	(18,304)	(3,206)
Financing activities:		
Exercise of vested options	1,331	—
Restricted cash released from letter of credit	5,000	—
Excess tax benefit from share-based awards	—	176
Purchase of treasury stock	(1,382)	(280)
Net cash provided by (used in) financing activities	4,949	(104)
Effect of exchange rate changes on cash	(567)	18
Net decrease in cash and cash equivalents	(7,451)	(35,142)
Cash and cash equivalents at beginning of period	145,167	228,891
Cash and cash equivalents at end of period	\$137,716	\$193,749
Supplemental disclosure of non-cash investing activities		
Other liabilities related to purchases of property, equipment and software	\$348	\$—

See accompanying notes to condensed consolidated financial statements

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

**NOTE 1 — BUSINESS DESCRIPTION AND BASIS OF PRESENTATION**

**Business Description**

Accretive Health, Inc. with its subsidiaries (the "Company") is a leading provider of services that help healthcare providers generate sustainable improvements in their operating margins and cash flows while also improving patient, physician and staff satisfaction for its customers. The Company achieves these results for its customers through an integrated approach encompassing an end-to-end revenue cycle management service offering and physician advisory services. The Company does so by deploying a unique operating model that leverages its extensive healthcare site experience, innovative technology and process excellence. The Company also offers modular services, allowing clients to engage the Company for only specific components of its end-to-end revenue cycle management service offering.

The Company's primary service offering consists of revenue cycle management ("RCM"), which helps healthcare providers to more efficiently manage their revenue cycles. This encompasses patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections from patients and payers. The Company's physician advisory services offering assists hospitals in complying with payer requirements regarding whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes and consists of both concurrent review and retrospective chart audits to help its customers achieve compliant and accurate billing. The Company also provides its customers with retrospective appeal management service support for both governmental and commercial payers.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements reflect the Company's financial position as of September 30, 2015, the results of operations for the three and nine months ended September 30, 2015 and 2014, and the cash flows of the Company for the nine months ended September 30, 2015 and 2014. These financial statements include the accounts of Accretive Health, Inc. and its wholly owned subsidiaries. All material intercompany amounts have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and as required by the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2015.

When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. For a more complete discussion of the Company's significant accounting policies and other information, the unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

**NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") and are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company's management believes that the impact of recently issued accounting pronouncements does not have a

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

material impact on the Company's consolidated financial position, results of operations, and cash flows, or do not apply to the Company's operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 requires that a company recognize revenue when it transfers promised goods or services to customers in an amount equal to the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. On July 9, 2015, the FASB approved the deferral of the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 will be effective for the Company's fiscal year beginning January 1, 2018, with retrospective applicability to prior periods. The Company may choose to adopt the standard as of the original effective date of annual reporting periods beginning after December 15, 2016; if it does so, the Company is required to apply the standard beginning in the first interim period within the year of adoption. The Company is currently evaluating the impact of the adoption of this prospective guidance on its consolidated financial statements.

#### NOTE 3 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has adopted the provisions of FASB Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1: Observable inputs such as quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table includes assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	September 30, 2015 (Unaudited)	December 31, 2014
Level 1 assets		
Money market funds with maturities of less than 90 days	—	137,802
Total	\$—	\$137,802

During the three months ended September 30, 2015, the Company liquidated its investments in money market funds and did not reinvest the net proceeds. As of September 30, 2015, the Company does not have any financial assets or liabilities that are required to be measured at fair value.



Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

**NOTE 4 — ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Accounts receivable is comprised of unpaid balances pertaining to non-RCM service fees and net receivable balances for RCM customers after considering cost reimbursements owed to such customers, including related accrued balances.

The Company maintains an estimated allowance for doubtful accounts to reduce its accounts receivable to the amount that it believes will be collected. This allowance is based on the Company's historical experience, its assessment of each customer's ability to pay, the length of time a balance has been outstanding, input from key customer resources assigned to each customer, and the status of any ongoing operations with each applicable customer.

Movements in the allowance for doubtful accounts are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Beginning balance	\$112	\$253	\$314	\$740
(Recoveries)/Provision	(34)	) 39	(79)	) (455)
Write-offs	(12)	) —	(169)	) 7
Ending balance	\$66	\$292	\$66	\$292

**NOTE 5 — PROPERTY, EQUIPMENT AND SOFTWARE**

Property, equipment and software consist of the following (in thousands):

	September 30,	December 31,
	2015	2014
	(unaudited)	
Computer and other equipment	\$20,711	\$17,701
Leasehold improvements	17,598	12,491
Software	20,687	12,398
Office furniture	4,903	3,152
Property, equipment and software, gross	63,899	45,742
Less: Accumulated depreciation and amortization	(37,320)	) (31,148)
Property, equipment and software, net	\$26,579	\$14,594

The following table summarizes the allocation of depreciation and amortization expense between cost of services and selling, general and administrative expenses (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Cost of services	\$2,491	\$1,053	\$5,799	\$3,142
Selling, general and administration	247	350	757	1,137
Total depreciation and amortization	\$2,738	\$1,403	\$6,556	\$4,279

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

## NOTE 6 — CUSTOMER LIABILITIES

Customer liabilities consist of the following (in thousands):

	September 30, 2015 (unaudited)	December 31, 2014
Deferred customer billings, current	\$234,436	\$132,063
Accrued service costs, current	96,237	68,077
Customer deposits, current	18,027	19,675
Deferred revenue, current	128	183
Current portion of customer liabilities	348,828	219,998
Deferred customer billings, non-current	323,293	317,065
Total customer liabilities	\$672,121	\$537,063

## NOTE 7 — SHARE-BASED COMPENSATION

The share-based compensation expense relating to the Company's stock options and restricted stock awards ("RSAs") for the three months ended September 30, 2015 and 2014 was \$12.3 million and \$5.4 million, respectively, with related tax benefits of approximately \$4.5 million and \$1.9 million, respectively. The share-based compensation expense relating to the Company's stock options and RSAs for the nine months ended September 30, 2015 and 2014 was \$25.3 million and \$23.7 million, respectively, with related tax benefits of approximately \$9.6 million and \$8.5 million, respectively.

Total share-based compensation expense that has been included in the Company's consolidated statements of operations was as follows (in thousands):

	Three Months Ended September 30, 2015      2014 (unaudited)		Nine Months Ended September 30, 2015      2014 (unaudited)	
Share-based Compensation Expense Allocation Details:				
Cost of services	\$3,152	\$1,736	\$5,756	\$5,614
Selling, general and administrative	9,163	3,488	19,562	10,077
Restatement and other	—	144	—	8,049
Total share-based compensation expense (1)	\$12,315	\$5,368	\$25,318	\$23,740

(1) Includes \$1.9 million and \$2.3 million in share-based compensation expense paid in cash during the three and nine months ended September 30, 2015, respectively, and \$0.3 million and \$0.6 million in share-based compensation expense paid in cash during both the three and nine months ended September 30, 2014, respectively.

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

The Company uses the Black-Scholes option pricing model to determine the estimated fair value of each option as of its grant date. These inputs are subjective and generally require significant analysis and judgment to develop. The Company used Monte Carlo simulations to estimate the fair value of its RSAs with vesting based on market-based performance conditions as of their respective grant dates. Expected life is based on the market condition to which the vesting is tied.

The following table sets forth the significant assumptions used in the Black-Scholes option pricing model and the Monte Carlo simulations and the calculation of share-based compensation expense for the nine months ended September 30, 2015 and 2014:

	Nine Months Ended September 30,	
	2015	2014
Future dividends	—	—
Risk-free interest rate	1.5% to 2.0%	1.9% to 2.2%
Expected volatility	50% to 68%	50%
Expected life	6.25 years	6.25 to 7.00 years
Forfeitures	5.68% annually	5.68% annually

The risk-free interest rate input is based on U.S. Treasury instruments, and expected volatility of the share price based upon review of the historical volatility levels of the Company's common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and a projection of this information toward its future expected volatility. The Company used the simplified method to estimate the expected option life for 2015 and 2014 option grants. The simplified method was used due to the lack of sufficient historical data available to provide a reasonable basis upon which to estimate the expected term of each stock option.

#### Stock Options

A summary of the options activity during the nine months ended September 30, 2015 is shown below:

	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2015	19,924,405	\$10.91
Granted	2,201,189	5.64
Exercised	(1,230,281)	) 1.08
Canceled	(3,889,964)	) 14.25
Forfeited	(983,712)	) 8.43
Outstanding at September 30, 2015	16,021,637	\$10.28
Outstanding and vested at September 30, 2015	9,052,988	\$11.69
Outstanding and vested at December 31, 2014	11,879,209	\$11.73

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

## Restricted Stock Awards

A summary of the restricted stock activity during the nine months ended September 30, 2015 is shown below:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2015	2,477,465	\$8.71
Granted	4,553,429	3.48
Vested	(842,183	) 7.29
Forfeited	(219,286	) 8.22
Outstanding at September 30, 2015	5,969,425	\$4.94

In most cases, RSA vesting is based on the passage of time. The amount of share-based compensation expense is based on the fair value of the Company's common stock on the respective grant dates and is recognized ratably over the vesting period.

During the third quarter of 2015, the Company granted 500,000 shares of restricted stock with market vesting conditions to the Chairman of its Board of Directors. This RSA vests on the third anniversary of the date the Chairman was appointed, subject to (i) continued service as Chairman and (ii) the average closing price of the Company's stock price equals or exceeds twice the grant date stock price for a specific number of days or upon a change in control transaction. The amount of share-based compensation expense for RSAs with vesting tied to market-based performance conditions is recognized over the expected performance period, however, compensation expense already recognized is not adjusted if market-based conditions are not met.

The Company's RSA agreements allow employees to surrender to the Company shares of common stock upon vesting of their RSAs in lieu of their payment of the required personal employment-related taxes. The Company does not withhold taxes in excess of minimum required statutory requirements. During the nine months ended September 30, 2015 and 2014, employees delivered to the Company 288,490 and 33,403 shares of stock, respectively, which the Company recorded at cost of approximately \$1.4 million and \$0.3 million, respectively, for the nine months ended September 30, 2015 and 2014. Shares surrendered in payment of personal employment-related taxes are held in treasury.

## Modification of share-based awards

During the second quarter of 2015, in connection with the resignation of a member of the Company's Board of Directors (the "Board") who was also the former Chief Executive Officer of the Company, the Company modified the terms of awards previously granted to such Board member. This modification allowed for the continuation of vesting of options despite his resignation from the Board. This modification resulted in a net increase of share-based compensation expense for the nine months ended September 30, 2015 of \$3.1 million.

During the third quarter of 2015, the Compensation Committee of the Board approved the grant of cash bonuses to those participants in the Company's 2014 annual cash incentive bonus plan who received all or a portion of their 2014 annual cash incentive award in the form of restricted shares of the Company's common stock (the "2014 Bonus Plan RSA Grantees"). These bonuses were paid to 2014 Bonus Plan RSA Grantees on the second regularly scheduled payroll date following the Company's scheduled second quarter earnings release on August 5, 2015 and were equal to the product of (i) \$2.66 (which amount represents the difference of \$5.38, the trading price per share of the Company's common stock as of the close of trading on the date that the Company determined the number of restricted shares to be granted to 2014 Bonus Plan RSA Grantees, minus \$2.72, the trading price per share of the Company's common stock as of the close of trading on the second business day following the earnings release), multiplied by (ii) the number of restricted shares granted to the applicable 2014 Bonus Plan RSA Grantee. The aggregate number of restricted shares granted to 2014 Bonus Plan RSA Grantees was 683,401. This



Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

modification resulted in a net increase of share-based compensation expense for both the three and nine months ended September 30, 2015 of \$1.8 million.

During the second quarter of 2014, the Company granted to the Chief Operating Officer (the "COO") retention equity awards subject to the approval of our stockholders of an amendment to our 2010 Stock Incentive Plan (the "2010 Plan"). In the event that the stockholders did not approve the amendment prior to December 31, 2014, then in lieu of the incentive equity awards, the COO would be entitled to receive cash payments following each date that any portion of such equity grant would have otherwise vested, equal to: (i) for stock options, the difference between the exercise price and the closing price of the common stock on the vesting date and (ii) for restricted stock, the closing price of the common stock on the vesting date. The Company determined that stockholder approval to amend the 2010 Plan would not occur by December 31, 2014 and accrued for these grants at the value as explained above. For the three and nine months ended September 30, 2015, the Company incurred \$0.1 million and \$0.5 million, respectively, of share-based compensation expense related to this grant. For the three and nine months ended September 30, 2014, the Company incurred \$0.3 million and \$0.6 million, respectively, of share-based compensation expense related to this grant.

Additionally, during the second quarter of 2014, pursuant to a retention agreement, the Company modified the terms of an award previously granted to the COO. This modification allowed for the extension, under certain circumstances, of the exercise period of vested options from 60 days following the termination of employment to an expiration period tied to the COO's length of service, but in no case greater than two years or beyond the expiration of the respective option. This modification resulted in a net increase in share-based compensation expense of \$0.2 million for the nine months ended September 30, 2014.

As described in Note 8, Restatement and Other, during 2013, the Company failed to timely file its annual report on Form 10-K for the fiscal year ended December 31, 2012, and on March 4, 2013, its Registration Statement on Form S-8 ("Form S-8") was suspended. As a result, individuals were not permitted to exercise vested options during the period between March 4, 2013 and July 7, 2015, the date the Company's S-8 once again became effective. During the three months ended June 30, 2014, the Company modified the terms of the share-based awards granted to 39 employees (including the 13 who were affected in 2013), who were terminated under the 2013 restructuring plan to allow for the extension of the exercise period for vested options until such time as the Form S-8 has been effective for 60 consecutive days. These modifications resulted in a net increase in share-based compensation expense of \$2.3 million for the nine months ended September 30, 2014.

During the first quarter of 2014, in connection with the resignation of a senior executive from the Company, the Company modified the terms of awards previously granted to such senior executive. This modification extended the term to exercise vested options from 60 days following his effective resignation date to such time as the Form S-8 has been effective for 60 consecutive days. This modification resulted in a net increase of share-based compensation expense for the nine months ended September 30, 2014 of \$5.6 million.

#### NOTE 8 — RESTATEMENT AND OTHER

In the first quarter of 2013, the Company determined that it would restate its previously issued consolidated financial statements (the "Restatement"). The Restatement corrected accounting errors relating to timing of recognition of net services revenue, as well as the presentation of net services revenue and cost of services, and also certain capitalized costs for internal use software, goodwill, income taxes and other miscellaneous items. The Company completed the Restatement in December 2014. The Restatement has also resulted in the Company spending additional time and resources redesigning its accounting processes and internal controls over financial reporting.

Restatement and other costs are comprised of reorganization-related and Restatement expenses and certain other costs. For the three and nine months ended September 30, 2015, the Company incurred \$4.0 million and \$5.9 million in

Restatement and other costs, respectively. For the three and nine months ended September 30, 2014, the Company incurred \$13.8 million and \$67.9 million in Restatement and other costs, respectively.

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

## Reorganization-related

In the second quarter of 2013, the Company initiated a restructuring plan consisting of reductions in workforce in order to align its organizational structure and resources to better serve its customers. The plan consisted of two separate staff reductions that occurred in 2013.

In January 2014, the Company continued and revised the 2013 plan to include additional reductions to its workforce in certain corporate, administrative and management functions (the "Plan"). The Plan consists of severance payments, medical and dental benefits, outplacement job training for certain U.S.-based employees and relocation costs.

In connection with the Plan, during the three and nine months ended September 30, 2014, the Company incurred pretax restructuring charges of \$2.0 million and \$16.3 million, respectively, primarily consisting of \$2.0 million and \$8.4 million, respectively, in severance and employee benefits and related expenses and \$7.9 million of non-cash expense related to share based compensation for modification of existing options for affected employees during the nine months ended September 30, 2014. For both the three and nine months ended September 30, 2015, the Company incurred pretax restructuring charges of \$2.4 million, consisting of \$0.8 million in severance and employee benefits and \$1.6 million in facilities related expenses. The Company's reorganization liability activity is included in accrued compensation and benefits and accrued other in the accompanying condensed consolidated balance sheets.

The Company's reorganization activity was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Reorganization liability, beginning balance	\$844	\$2,982	\$3,454	\$1,143
Restructuring charges	2,428	1,953	2,428	16,292
Cash payments	(852	) (1,562	) (3,462	) (6,157
Non-cash payments	—	—	—	(7,905
Reorganization liability, ending balance	\$2,420	\$3,373	\$2,420	\$3,373

## Restatement

For the three and nine months ended September 30, 2015, the Company incurred \$0.2 million and \$2.4 million in Restatement-related costs, respectively. During the three and nine months ended September 30, 2014, the Company incurred \$6.8 million and \$45.5 million in Restatement-related costs, respectively. The Restatement-related costs incurred during the three and nine months ended September 30, 2015 and 2014 were due to professional service fees related to our restatement.

## Other

During the three and nine months ended September 30, 2015, the Company incurred other costs of \$1.4 million and \$1.1 million, respectively, primarily consisting of \$1.4 million in costs incurred related to the exploration of potential strategic alternatives during the three months ended September 30, 2015 offset during the nine months ended September 30, 2015 by a decrease of \$0.3 million in employment tax expense relating to prior years during the six months ended June 30, 2015. During the three and nine months ended September 30, 2014, the Company incurred other costs of \$5.0 million and \$6.1 million, respectively, in costs associated with its transformation office, which was



created to provide continuity and cross functional accountability associated with the continued execution

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Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

of the Company's turnaround plan during the period subsequent to Stephen Schuckenbrock's resignation as our Chief Executive Officer and prior to the appointment of Dr. Emad Rizk as our Chief Executive Officer ("Transformation Office").

#### NOTE 9 — INCOME TAXES

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period. The Company's intention is to permanently reinvest its foreign earnings outside the United States. As a result, the effective tax rates in the periods presented are largely based upon the projected annual pre-tax earnings by jurisdiction and the allocation of certain expenses in various taxing jurisdictions where the Company conducts its business. These taxing jurisdictions apply a broad range of statutory income tax rates.

The income tax benefit for the nine months ended September 30, 2015 and September 30, 2014 were higher than the amount derived by applying the federal statutory tax rate of 35% primarily due to the impact of state taxes. The tax rate is also impacted by discrete items that may occur in any given period.

The Company corrected the statutory rate used in one of its state deferred calculations for the year ended December 31, 2013. The Company discovered this error in the process of preparing its annual and quarterly financial statements for the year ended December 31, 2014, and recorded the amount in the first quarter of 2014. The correction of this error increased tax expense for the nine months ended September 30, 2014 by approximately \$2.4 million. The Company determined that this amount is immaterial for the nine months ended September 30, 2014 and the year ended December 31, 2014.

The Company and its subsidiaries are subject to U.S. federal income taxes as well as income taxes in multiple state and foreign jurisdictions. The Company's 2013, 2012, and 2011 U.S. federal income tax returns are currently under examination. State jurisdictions have various open tax years. The statutes of limitations for most states range from three to six years.

During the nine months ended September 30, 2015, the Company wrote off approximately \$13.8 million of deferred tax assets due to the expiration and exercise of shared-based awards. The additional paid-in capital was reduced by the corresponding amount.

In July 2015, the Company received an unsolicited letter from Ascension Health (the "Ascension Letter") indicating that, at that time, Ascension Health did not anticipate entering into a new master professional services agreement with the Company when the current agreement between the parties expires in 2017, and that Ascension Health was open to discussing a potential transaction under which the Company would be taken private by Ascension (alone or with a co-investor of its choosing) and remain a stand alone, for profit company servicing RCM customers. In July 2015, the Company began a formal process of evaluating strategic alternatives with its financial and legal advisors (the "Process"). The Process is still ongoing. The Company's domestic net deferred tax asset balance at September 30, 2015 is \$307.4 million. Of this amount, approximately \$222.3 million is related to deferred customer billings and will be realized upon the occurrence of a contractual revenue recognition event. It is possible, however, that future developments regarding the Process and/or the Ascension Letter may cause the remaining balance to be subject to a valuation allowance should the realizability assessment change.

#### NOTE 10 — EARNINGS PER SHARE

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Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period under the treasury stock method. Under the treasury stock method, dilutive securities are assumed to be exercised at the beginning of the periods and as if funds obtained thereby were used to purchase common stock at

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Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

the average market price during the period. Securities are excluded from the computations of diluted net income per share if their effect would be anti-dilutive to earnings per share.

The following table sets forth the computation of basic and diluted earnings per share available to common shareholders for the three and nine months ended September 30, 2015 and 2014, respectively (in thousands, except share and per share data).

	Three Months Ended		Nine Months Ended	
	September 30, 2015 (unaudited)	2014	September 30, 2015 (unaudited)	2014
Net income (loss)	\$(32,970 )	\$9,553	\$(89,703 )	\$(61,969 )
Basic weighted-average common shares	97,230,069	95,775,597	96,358,342	95,750,887
Add: Effect of dilutive securities	—	1,474,685	—	—
Diluted weighted average common shares	97,230,069	97,250,282	96,358,342	95,750,887
Net income (loss) per common share (basic)	\$(0.34 )	\$0.10	\$(0.93 )	\$(0.65 )
Net income (loss) per common share (diluted)	\$(0.34 )	\$0.10	\$(0.93 )	\$(0.65 )

Because of their anti-dilutive effect, 21,991,062 and 19,345,399 common share equivalents comprised of stock options and restricted stock awards have been excluded from the diluted earnings per share calculation for the three months ended September 30, 2015 and 2014, respectively. Stock options and restricted stock awards totaling 21,992,062 and 23,346,213 were not included in the computation of diluted income per share for the nine months ended September 30, 2015 and 2014, respectively, as these options and awards were anti-dilutive.

#### NOTE 11 — COMMITMENTS AND CONTINGENCIES

##### Revolving Credit Facility

The Company previously maintained a line of credit with the Bank of Montreal in the amount of \$3.0 million. The \$3.0 million line of credit could only be utilized by the Company in the form of letters of credit and was secured by a \$5.0 million demand deposit with the Bank of Montreal. The Company's line of credit expired on February 15, 2015 and was not renewed. As a result of such expiration, the Company has reclassified the \$5.0 million from restricted cash into cash and cash equivalents at March 31, 2015.

##### Legal Proceedings

The Company is subject to various claims, other pending and possible legal actions for product liability and other damages, and other matters arising out of the conduct of the Company's business. On a quarterly basis, the Company reviews material legal claims against the Company. The Company accrues for the costs of such claims as appropriate and in the exercise of its judgment and experience. However, due to a lack of factual information available to the Company about a claim, or the procedural stage of a claim, it may not be possible for the Company to reasonably assess either the probability of a favorable or unfavorable outcome of the claim or to reasonably estimate the amount of loss should there be an unfavorable outcome. Therefore, for many of the claims, the Company cannot estimate a range of loss. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have a material adverse effect on the Company's results of operations or financial position. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company's results of operations or financial position.

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

Other than as described below, the Company is not presently a party to any material litigation or regulatory proceeding and is not aware of any pending or threatened litigation or regulatory proceeding against the Company which, individually or in the aggregate, could have a material adverse effect on its business, operating results, financial condition or cash flows.

On January 19, 2012, the State of Minnesota, by its Attorney General, filed a complaint against the Company in the United States District Court for the District of Minnesota, alleging violations of federal and Minnesota state health privacy laws and regulations, Minnesota debt collection laws, and Minnesota consumer protection laws resulting from, among other things, the theft in Minnesota in July 2011 of an employee's laptop that contained protected health information. On January 25, 2012, the Commissioner of the Minnesota Department of Commerce served the Company an administrative subpoena seeking information and documents about its debt collection practices and the privacy of personal and health data within its possession or control. On February 3, 2012, the Company entered into a Consent Cease and Desist Order with the Commissioner, voluntarily agreeing to cease all debt collection activity in the State of Minnesota. On July 30, 2012, without any admission of liability or wrongdoing, the Company entered into a Settlement Agreement, Release and Order with the Minnesota Attorney General to settle the lawsuit filed by the Minnesota Attorney General and the investigation commenced by the Minnesota Department of Commerce and to resolve fully all disputes which in any way related to, arose out of, emanated from, or otherwise involved such lawsuit or investigation and all investigations by the Minnesota Attorney General, the Minnesota Department of Commerce, and the Minnesota Department of Human Services relating to the Company. As part of the settlement, the Company paid a settlement sum of \$2.5 million and voluntarily agreed to cease all remaining operations in Minnesota.

On April 26, 2012 and May 1, 2012, the Company, along with certain of its former officers, was named as a defendant in two putative securities class action lawsuits filed in the U.S. District Court for the Northern District of Illinois, which were consolidated as *Wong v. Accretive Health et al.* The primary allegations are that the Company's public statements, including filings with the SEC, were false and/or misleading about its violations of certain federal and Minnesota privacy and debt collection laws. On September 26, 2013, without any admission of liability or wrongdoing, the Company entered into a Settlement Agreement to resolve these suits for \$14 million, which has been funded into escrow by its insurance carriers. On April 30, 2014, the U.S. District Court for the Northern District of Illinois granted final approval of the Settlement Agreement. A single objector to the Settlement Agreement appealed to the U.S. Court of Appeals for the Seventh Circuit, and on December 9, 2014, the court of appeals affirmed the district court's approval of the settlement. On December 23, 2014, that objector submitted a petition for en banc rehearing, which was denied on January 26, 2015.

In addition, the Company, along with certain of its directors and former officers, has been named in several putative shareholder derivative lawsuits filed in the U.S. District Court for the Northern District of Illinois on May 3, 2012 and July 31, 2012 (consolidated as *Maurras Trust v. Accretive Health et al.*), in the Circuit Court of Cook County, Illinois on June 23, 2012 and June 27, 2012 (consolidated as *In re Accretive Health, Inc. Derivative Litigation*) and in the Court of Chancery of the State of Delaware on November 5, 2012 (*Doyle v. Tolan et al.*). The primary allegations are that its directors and officers breached their fiduciary duties in connection with the alleged violations of certain federal and Minnesota privacy and debt collection laws.

On July 11, 2013, the Court of Chancery of the State of Delaware granted the Company's motion to stay *Doyle v. Tolan et al.*, in favor of the action pending in the U.S. District Court for the Northern District of Illinois. On September 24, 2013, the U.S. District Court for the Northern District of Illinois granted the Company's motion to dismiss without prejudice, giving plaintiffs in that case leave to file an amended consolidated complaint, which plaintiffs filed on October 22, 2013, amending their complaint to also include allegations with respect to the Restatement. On February 25, 2015, the Company entered a settlement agreement with plaintiffs in all of these suits that would resolve the derivative actions, on the basis of certain governance reforms already implemented and

payment of attorneys' fees in the amount of \$0.6 million. On July 23, 2015, the U.S. District Court for the Northern District of Illinois granted final approval of the settlement agreement. The Delaware and Cook County derivative suits are within the scope of the settlement approved by the federal district court and were dismissed on August 12, 2015 and August 17, 2015, respectively.

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

On May 17, 2013, the Company, along with certain of its directors, former directors and former officers, was named as a defendant in a putative securities class action lawsuit filed in the U.S. District Court for the Northern District of Illinois (*Hughes v. Accretive Health, Inc. et al.*). The primary allegations, relating to its March 8, 2013 announcement that the Company would be restating its prior period financial statements, are that its public statements, including filings with the SEC, were false and/or misleading with respect to its revenue recognition and earnings prospects. On November 27, 2013, plaintiffs voluntarily dismissed the Company's directors and former directors (other than Mary Tolan). On January 31, 2014, the Company filed a motion to dismiss the complaint. On September 25, 2014, the Court granted the Company motion to dismiss without prejudice, however the plaintiffs filed a second amended complaint on October 23, 2014. On November 10, 2014, the Company filed a motion to dismiss the second amended complaint. While that motion was still pending, on January 8, 2015, plaintiffs filed a motion to amend the second amended complaint, seeking to add allegations regarding the recently issued Restatement. On April 22, 2015, the court granted plaintiffs' motion to amend, and a third amended complaint was filed on May 13, 2015. The Company moved to dismiss the third amended complaint on June 3, 2015. That motion is fully briefed and awaiting decision. The Company continues to believe it has meritorious defenses and intends to vigorously defend itself, Mary Tolan, and its former officers against these claims. The outcome is not presently determinable.

The SEC's Division of Enforcement in the Chicago Regional Office is also conducting an investigation regarding the circumstances surrounding the Restatement. The Company is fully cooperating with the investigation.

On February 11, 2014, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Southern District of Alabama (*Church v. Accretive Health, Inc.*). The primary allegation is that the Company attempted to collect debts without providing the notice required by the Fair Debt Collections Practices Act ("FDCPA"). The Company believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The Company's summary-judgment motion is now fully briefed and pending before the Court.

Class-certification proceedings have been deferred until that summary-judgment motion has been resolved. The outcome is not presently determinable.

On July 22, 2014, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Michigan (*Anger v. Accretive Health, Inc.*). The primary allegations are that the Company attempted to collect debts without providing the notice required by the FDCPA and Michigan Fair Debt Collection Practices Act and failed to abide by the terms of an agreed payment plan in violation of those same statutes. On August 27, 2015, the Court granted in part and denied in part the Company's motion to dismiss. A scheduling conference was held on October 26, 2015, and the Company expects discovery to be underway shortly. The Company believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome is not presently determinable.

On February 6, 2015, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Michigan (*Cassale v. Accretive Health, Inc.*). The primary allegations were that the Company attempted to collect debts without complying with the provisions of the FDCPA. The case was settled in April 2015.

On February 24, 2015 (amended Feb. 25, 2015), the Plaintiff in the Church action (above) filed a motion with the Joint Panel for Multidistrict Litigation to transfer and consolidate the Church, Anger and Cassale actions for pretrial purposes in the Southern District of Alabama where the Church case is currently pending. That motion was withdrawn in May 2015.

In April 2015, the Company was named among other defendants in an employment action brought by Jennifer Worthy, a former employee before the Maine Human Rights Commission ("MHRC") alleging that she was improperly terminated in retaliation for uncovering alleged Medicare fraud. The Company filed its response with the MHRC on May 19, 2015 seeking that the Company be dismissed entirely from the action. On June 23, 2015, the MHRC issued

its Notice of Right to Sue and decision to terminate its process with respect to all charges asserted by the former employee. On January 12, 2015, Plaintiff Worthy filed a Second Amended Complaint (Filed under Seal), a qui tam False Claims Act case in the United States District Court in Maine (Worthy v. Eastern Maine Healthcare



Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

Systems) in which she makes the same allegations. The U.S. Department of Justice declined to intervene in the federal court action, and the case was unsealed in April 2015 but process has not been served on any defendant. The Company believes that it has meritorious defenses to both the potential employment law action for which the MHRC has granted the Notice of Right to Sue letter and the federal qui tam case, and intends to vigorously defend itself against these claims. The outcomes are not presently determinable.

On June 17, 2015, the Company filed a confidential arbitration demand with the American Arbitration Association against Salem Hospital for unpaid fees due under the parties' Health Services Agreement in an aggregate amount of \$9.3 million. On July 31, 2015, Salem Hospital filed its answer, in which it denied the Company's claims and asserted counterclaims against the Company in the amount of \$2.7 million. The outcome is not presently determinable.

#### NOTE 12 — SEGMENTS AND CUSTOMER CONCENTRATIONS

The Company has determined that it has a single operating segment in accordance with how its business activities are managed and evaluated. All of the Company's significant operations are organized around the single business of providing end-to-end management services of revenue cycle operations for U.S.-based hospitals and other medical providers. Accordingly, for purposes of segment disclosures, the Company has only one reporting segment. All of the Company's net services revenue and trade accounts receivable are derived from healthcare providers domiciled in the United States.

Hospital systems affiliated with Ascension Health have accounted for a significant portion of the Company's net services revenue each year since the Company's formation. For the three and nine months ended September 30, 2015, three different customers, unaffiliated with Ascension Health, accounted for 59% and 54%, respectively, of the Company's net services revenues. For the three and nine months ended September 30, 2014, three customers accounted for 93% and 84%, respectively, of the Company's net services revenues, of which one customer is part of the affiliated Ascension Health system. The Ascension Health system, through its individual customer contracts with the Company, accounted for more than 78% and 76% of the Company's total deferred customer billings at September 30, 2015 and December 31, 2014, respectively. The loss of the customers within this large health system would have a material adverse impact on the Company's operations. In July 2015, the Company received a letter from Ascension Health indicating that, at this time, Ascension Health does not anticipate entering into a new master professional services agreement with the Company once the current agreement between the parties expires on August 6, 2017, but that it was open to discussing a potential acquisition of the Company. There are three customers whose individual balance is equal to or greater than 10% of total deferred customer billings at September 30, 2015, and, in the aggregate, account for 47% and 48% of the total deferred customer billings at September 30, 2015 and December 31, 2014, respectively, of which two customers are part of the affiliated Ascension Health system discussed above. The Company does not have a concentration of credit risk within accounts receivable as reported in the consolidated balance sheets with any one large customer at September 30, 2015 and December 31, 2014.

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

Unless the context indicates otherwise, references in this Quarterly Report on Form 10-Q to "Accretive Health", "the Company," "we," "our," and "us" mean Accretive Health, Inc., and its subsidiaries.

The following discussion and analysis is an integral part of understanding our financial results and is provided as an addition to, and should be read in connection with, our condensed consolidated financial statements and the accompanying notes. Also refer to Note 1 of our condensed consolidated financial statements.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, that involve substantial risks and uncertainties. These statements are often identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "would" and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," in Part II, Item 1A of this Quarterly Report on Form 10-Q, and elsewhere in this Report, as well as those set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 as well as our other filings with the SEC. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

#### OVERVIEW

##### Our Business

We are a leading provider of services that help healthcare providers generate sustainable improvements in their operating margins and cash flows while also improving patient, physician and staff satisfaction for our customers. Our goal is to help our healthcare provider customers deliver high-quality care and serve their communities, and do so in a financially sustainable way. We help our customers more efficiently manage their revenue cycle process and strive to help prepare them for the evolving dynamics of the healthcare industry, particularly the challenges and opportunities presented by the shift to value-based reimbursement which is designed to reward the value, rather than the volume, of healthcare services provided.

While we cannot control the changes in the regulatory environment imposed on our customers, we believe that our role becomes increasingly more important to our customers as macroeconomic, regulatory and healthcare industry conditions continue to impose financial pressure on healthcare providers to manage their operations effectively and efficiently.

Revenue Cycle Management, or RCM, continues to be our primary service offering. Our RCM offering helps our customers more efficiently manage their revenue cycle process. This encompasses patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. We focus on optimizing our customers' entire, end-to-end revenue cycle process, which we believe is more advantageous than alternative approaches that merely focus on certain aspects or sub-processes within the revenue cycle. Our physician advisory services, or PAS, complements our RCM offering by strengthening our customers' compliance with certain third-party payer requirements and limiting denials of claims. For example, our PAS offering helps customers determine whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes. We believe that the population health capabilities we are integrating into our RCM offering will enhance our value-based reimbursement capabilities to help providers enter into risk-bearing arrangements with payers.

We operate our business as a single segment configured with our significant operations and offerings organized around the business of providing end-to-end RCM services to U.S.-based hospitals and other healthcare providers.



## CONSOLIDATED RESULTS OF OPERATIONS

The following table provides consolidated operating results and other operating data for the periods indicated:

	Three Months Ended September 30,		2015 vs. 2014 Change		Nine Months Ended September 30,		2015 vs. 2014 Change	
	2015	2014	Amount	%	2015	2014	Amount	%
	(In thousands except percentages)							
Consolidated Statement of Operations Data:								
RCM services: net operating fees	\$6,232	\$37,861	\$(31,629)	(83.5)%	\$19,402	\$62,817	\$(43,415)	(69.1)%
RCM services: incentive fees	1,017	45,970	(44,953)	(97.8)%	9,022	75,076	(66,054)	(88.0)%
RCM services: other	5,359	1,858	3,501	n.m.	9,591	5,787	3,804	65.7%
Other service fees	3,234	5,056	(1,822)	(36.0)%	10,883	19,004	(8,121)	(42.7)%
Total net services revenue	15,842	90,745	(74,903)	(82.5)%	48,898	162,684	(113,786)	(69.9)%
Operating expenses:								
Cost of services	45,326	45,370	(44)	(0.1)%	130,284	138,251	(7,967)	(5.8)%
Selling, general and administrative	21,395	16,785	4,610	27.5%	59,726	53,609	6,117	11.4%
Restatement and other	3,964	13,846	(9,882)	(71.4)%	5,850	67,907	(62,057)	(91.4)%
Total operating expenses	70,685	76,001	(5,316)	(7.0)%	195,860	259,767	(63,907)	(24.6)%
Income (loss) from operations	(54,843)	14,744	(69,587)	n.m.	(146,962)	(97,083)	(49,879)	51.4%
Net interest income	73	100	(27)	(27.0)%	147	252	(105)	(41.7)%
Net income (loss) before income tax provision	(54,770)	14,844	(69,614)	n.m.	(146,815)	(96,831)	(49,984)	51.6%
Income tax provision (benefit)	(21,800)	5,291	(27,091)	n.m.	(57,112)	(34,862)	(22,250)	63.8%
Net income (loss)	\$(32,970)	\$9,553	\$(42,523)	n.m.	\$(89,703)	\$(61,969)	\$(27,734)	44.8%

### Use of Non-GAAP Financial Information

We typically invoice customers for base fees and incentive fees on a quarterly or monthly basis, and typically receive cash from customers on a similar basis. For generally accepted accounting principles, or GAAP, reporting purposes, we only recognize these net operating fees and incentive fees as net services revenue to the extent that all the criteria for revenue recognition are met, which is generally upon contract renewal, termination or other contractual agreement. As such, net operating and incentive fees are typically recognized for GAAP purposes in periods subsequent to the periods in which the services are provided. Therefore, our net services revenue and other items in our GAAP consolidated financial statements and adjusted EBITDA will typically include the effects of billings and collections from periods prior to the period in which revenue is recognized.

In order to provide a more comprehensive understanding of the information used by our management team in financial and operational decision-making, we supplement our GAAP consolidated financial statements with the following non-GAAP financial measures: gross and net cash generated from customer contracting activities, and adjusted EBITDA.

Our Board and management team use these non-GAAP measures as (i) one of the primary methods for planning and forecasting overall expectations and for evaluating actual results against such expectations; and (ii) as a performance evaluation metric in determining achievement of certain executive incentive compensation programs, as well as for incentive compensation plans for employees.

## Selected Non-GAAP Measures

The following table presents selected non-GAAP measures for each of the periods indicated. See below for an explanation of how we calculate and use these non-GAAP measures, and for a reconciliation of these non-GAAP measures to the most comparable GAAP measure.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Non-GAAP Measures:	(in thousands)			
Adjusted EBITDA	\$(35,826 )	\$35,217	\$(109,238 )	\$(9,206 )
Net cash generated from customer contracting activities	\$3,715	\$3,396	\$(637 )	\$983
Gross cash generated from customer contracting activities	\$55,383	\$58,924	\$157,499	\$172,873

## Gross and Net Cash Generated from Customer Contracting Activities

Gross and net cash generated from customer contracting activities reflect the change in the deferred customer billings, relative to GAAP net services revenue, and adjusted EBITDA (defined below), respectively. Deferred customer billings include the portion of both (i) invoiced or accrued net operating fees and (ii) cash collections of incentive fees, in each case, that have not met our revenue recognition criteria. Deferred customer billings are included in the detail of our customer liabilities balance in the condensed consolidated balance sheet. Deferred customer billings are reduced by the amounts of revenue recognized when a revenue recognition event occurs. Gross cash generated from customer contracting activities is defined as GAAP net services revenue, plus the change in deferred customer billings. Accordingly, gross cash generated from customer contracting activities is the sum of (i) invoiced or accrued net operating fees, (ii) cash collections on incentive fees and (iii) other services fees.

Net cash generated from customer contracting activities is defined as adjusted EBITDA, plus the change in deferred customer billings.

These non-GAAP measures are used throughout this Quarterly Report on Form 10-Q including in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Gross and net cash generated from customer contracting activities include invoices issued to customers that may remain uncollected or may be subject to credits, and cash collected may be returned to our customers in the form of concessions or other adjustments. Customer concessions and other adjustments have occurred in the past and we cannot determine the likelihood that they will again occur in the future.

## Adjusted EBITDA

We define adjusted EBITDA as net income before net interest income (expense), income tax provision, depreciation and amortization expense, share-based compensation expense, Restatement-related expense, reorganization-related expense and certain non-recurring items. The use of adjusted EBITDA to measure operating and financial performance is limited by our revenue recognition criteria, pursuant to which GAAP net services revenue is recognized at the end of a contract or "other contractual agreement event". Adjusted EBITDA does not adequately match corresponding cash flows resulting from customer contracting activities. Accordingly, as described above, in order to better compare our cash flows from customer contracting activities to our operating performance, we use additional non-GAAP measures: gross and net cash generated from customer contracting activities. We use adjusted EBITDA in our reconciliation of net cash generated from customer contracting activities to our GAAP consolidated financial statements.

We understand that, although non-GAAP measures are frequently used by investors, securities analysts, and others in their evaluation of companies, these measures have limitations as analytical tools, and you should not

consider them in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

Gross and net cash generated from customer contracting activities include invoiced or accrued net operating fees, and invoiced as well as collected incentive fees which may be subject to adjustment or concession prior to the end of a contract or "other contractual agreement event";

- Gross and net cash generated from customer contracting activities include progress billings on incentive fees that have been collected for a number of our RCM contracts. These progress billings have, from time-to-time, been subject to adjustments, and the fees included in these non-GAAP measures may be subject to adjustments in the future;
- Net cash generated from customer contracting activities and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

Net cash generated from customer contracting activities and adjusted EBITDA do not reflect share-based compensation expense;

- Net cash generated from customer contracting activities and adjusted EBITDA do not reflect income tax expenses or cash requirements to pay taxes;

Although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and net cash generated from customer contracting activities and adjusted EBITDA do not reflect cash requirements for such replacements or other purchase commitments, including lease commitments; and

Other companies in our industry may calculate gross or net cash generated from customer contracting activities or adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Reconciliation of GAAP and Non-GAAP Measures

The following table represents a reconciliation of adjusted EBITDA and gross and net cash generated from customer contracting activities to net income (loss), the most comparable GAAP measure, for each of the periods indicated (in thousands, except percentages).

	Three Months Ended		2015 vs. 2014		Nine Months Ended		2015 vs. 2014 Change	
	September 30, 2015	2014	Amount	%	September 30, 2015	2014	Amount	%
Net income (loss)	\$(32,970)	\$9,553	\$(42,523)	n.m.	\$(89,703)	\$(61,969)	\$(27,734)	44.8 %
Net interest income	(73)	(100)	27	(27.0)	(147)	(252)	105	(41.7)
Income tax provision (benefit)	(21,800)	5,291	(27,091)	n.m.	(57,112)	(34,862)	(22,250)	63.8 %
Depreciation and amortization expense	2,738	1,403	1,335	95.2	6,556	4,279	2,277	53.2 %
Share-based compensation expense (1)	12,315	5,224	7,091	n.m.	25,318	15,691	9,627	61.4 %
Restatement and other (2)	3,964	13,846	(9,882)	(71.4)	5,850	67,907	(62,057)	(91.4)
Adjusted EBITDA	(35,826)	35,217	(71,043)	n.m.	(109,238)	(9,206)	(100,032)	n.m.
Change in deferred customer billings (3)	39,541	(31,821)	71,362	n.m.	108,601	10,189	98,412	n.m.
Net cash generated from customer contracting activities	\$3,715	\$3,396	\$319	9.4	\$(637)	\$983	\$(1,620)	n.m.
Net services revenue (GAAP basis)	\$15,842	\$90,745	\$(74,903)	(82.5)	\$48,898	162,684	\$(113,786)	(69.9)
Change in deferred customer billings (3)	39,541	(31,821)	71,362	n.m.	108,601	10,189	98,412	n.m.
Gross cash generated from customer contracting activities	\$55,383	\$58,924	\$(3,541)	(6.0)	\$157,499	\$172,873	\$(15,374)	(8.9)

Components of Gross Cash Generated from Customer Contracting Activities:

RCM services: net operating fee	\$31,522	\$26,454	\$5,068	19.2	\$88,761	\$90,684	\$(1,923)	(2.1)
RCM services: incentive fee	14,859	25,556	(10,697)	(41.9)	47,501	57,398	(9,897)	(17.2)
RCM services: other	5,768	1,218	4,550	n.m.	10,354	4,147	6,207	n.m.
Total RCM service fees	52,149	53,228	\$(1,079)	(2.0)	146,616	152,229	\$(5,613)	(3.7)
Other service fees	3,234	5,696	(2,462)	(43.2)	10,883	20,644	(9,761)	(47.3)
Gross cash generated from customer contracting activities	\$55,383	\$58,924	\$(3,541)	(6.0)	\$157,499	\$172,873	\$(15,374)	(8.9)

n.m.—Not meaningful

(1) Share-based compensation expense represents the expense associated with stock options and restricted shares granted, as reflected in our Condensed Consolidated Statements of Operations and Comprehensive Income. See Note 7, Share-Based Compensation, to the condensed consolidated financial statements included in this Quarterly

Report on Form 10-Q for the detail of the amounts of share-based compensation expense.

Restatement and other costs are comprised of reorganization-related, Restatement-related and certain other costs. For the three months ended September 30, 2015 and 2014, we incurred Restatement-related costs of \$0.2 million and \$6.8 million, respectively. For the nine months ended September 30, 2015 and 2014, we incurred \$2.4 million and \$45.5 million, respectively, in Restatement-related costs. The costs incurred during the three and nine months ended September 30, 2015 and 2014 were due to professional services fees related to our Restatement. For both the three and nine months ended September 30, 2015, we incurred reorganization-related costs of \$2.4 million. For the three and nine months ended September 30, 2014, we incurred reorganization-related costs of \$2.0 million and (2) \$16.3 million, respectively. These costs included severance payments, healthcare benefits, and outplacement job training in connection with a reduction in workforce in certain corporate, administrative and management functions in 2014 and 2015. During the three and nine months ended September 30, 2015, we incurred other costs of \$1.4 million and \$1.1 million, respectively, primarily related to \$1.4 million in costs incurred related to the exploration of potential strategic alternatives during the three months ended September 30, 2015, offset during the nine months ended September 30, 2015 by a decrease of \$0.3 million in employment tax expense relating to prior years during the six months ended June 30, 2015. During the three and nine months ended September 30, 2014, we incurred other costs



of \$5.0 million and \$6.1 million, respectively, in costs associated with our transformation office, which was created to provide continuity and cross functional accountability associated with the continued execution of the Company's turnaround plan during the period subsequent to Stephen Schuckenbrock's resignation as our Chief Executive Officer and prior to the appointment of Dr. Emad Rizk as our Chief Executive Officer ("Transformation Office").

Deferred customer billings include the portion of both (i) invoiced or accrued net operating fees and (ii) cash collections on incentive fees, in each case, that have not met our revenue recognition criteria. Deferred customer billings are included in the detail of our customer liabilities account in the condensed consolidated balance sheet.

(3) Deferred customer billings are reduced by revenue recognized when revenue recognition occurs. Change in deferred customer billings represents the net change in the cumulative net operating fees and incentive fees that have not met revenue recognition criteria.

### Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

#### Net Services Revenues

Net services revenue decreased by \$74.9 million, or 82.5%, to \$15.8 million for the three months ended September 30, 2015, from \$90.7 million for the three months ended September 30, 2014. The decrease was primarily driven by a decline in RCM services revenue of \$73.1 million, from \$85.7 million in RCM services revenue recognized for the three months ended September 30, 2014 to \$12.6 million in RCM services revenue recognized for the three months ended September 30, 2015, primarily driven by a decrease in RCM contractual agreement events.

In addition, other service fee revenues decreased by \$1.8 million, to \$3.2 million for the three months ended September 30, 2015 from \$5.1 million for the three months ended September 30, 2014, primarily driven by a decline in PAS revenue of \$1.7 million, due to the negative impact of the "two-midnight rule," a regulatory change in the healthcare industry related to billing classifications for certain hospital patients.

#### Gross Cash Generated from Customer Contracting Activities (Non-GAAP)

Gross cash generated from customer contracting activity totaled \$55.4 million for the three months ended September 30, 2015 compared to \$58.9 million for the three months ended September 30, 2014, a decrease of \$3.5 million. The decrease in RCM gross cash generated of \$1.1 million was primarily due to termination of a RCM customer contract during the three months ended June 30, 2015. In addition, the decrease in other service revenue was primarily a result of a decrease in PAS revenue of \$1.7 million due to the negative impact of the "two-midnight rule" and a \$0.6 million decrease due to population health services revenue in 2014, which services were not offered on a stand alone basis in 2015.

For an explanation of how we calculate gross cash generated from customer contracting activities, refer to the reconciliation of GAAP and Non-GAAP measures above.

#### Costs of Services

Costs of services decreased to \$45.3 million for the three months ended September 30, 2015, from \$45.4 million for the three months ended September 30, 2014.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$4.6 million, or 27.5%, to \$21.4 million for the three months ended September 30, 2015, from \$16.8 million for the three months ended September 30, 2014. The increase was due to an increase in stock based compensation expense of \$5.7 million resulting from an increase in RSAs granted during the three months ended September 30, 2015 and a cash bonus of \$1.8 million paid to the 2014 Bonus Plan RSA Grantees. During the third quarter of 2015, the Compensation Committee of the Board approved the grant of cash bonuses to those participants in the Company's 2014 annual cash incentive bonus plan who received all or a portion of their 2014 annual cash incentive award in the form of restricted shares of the Company's common stock

(the "2014 Bonus Plan RSA Grantees"). This increase was offset by a decrease in other expenses of \$1.1 million primarily due to continuation of cost reduction initiatives started in prior years.

#### Net Cash Generated from Customer Contracting Activities (Non-GAAP)

Net cash generated from customer contracting activities totaled \$3.7 million for the three months ended September 30, 2015, compared to \$3.4 million of cash generated for the three months ended September 30, 2014. This increase of \$0.3 million was primarily due to a decrease in gross cash generated offset by a decrease in cost of services. For an explanation of how we calculate net cash generated from customer contracting activities, refer to the Reconciliation of GAAP and Non-GAAP measures above.

#### Restatement and other

Restatement and other costs decreased by \$9.9 million, or 71.4%, to \$4.0 million for the three months ended September 30, 2015, from \$13.8 million for the three months ended September 30, 2014. The decrease was primarily attributable to a decrease in Restatement-related costs of \$6.6 million and \$5.0 million in costs associated with our Transformation Office in the three months ended September 30, 2014, offset by \$1.4 million in costs related to exploration of potential strategic alternatives and an increase in \$0.3 million in reorganization-related costs in the three months ended September 30, 2015.

#### Income Taxes

Our tax expense decreased by \$27.1 million to a tax benefit of \$21.8 million for the three months ended September 30, 2015, from an expense of \$5.3 million for the three months ended September 30, 2014, primarily due to the reduction in pretax income. Our effective tax rate for the three months ended September 30, 2015 and 2014 was 39.8% and 35.6%, respectively. Our tax rate is affected by changes in state tax rates and discrete items that may occur in any given period but not consistent from year to year. The increase in the effective tax rate for the three months ended September 30, 2015 is primarily attributable to the impact of cumulative adjustments accounted for discretely in the quarter ended September 30, 2015. The effective tax rate for the three months ended September 30, 2014 was favorably impacted by discrete items in the quarter.

#### Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

##### Net Services Revenues

Net services revenue decreased by \$113.8 million, or 69.9%, to \$48.9 million for the nine months ended September 30, 2015, from \$162.7 million for the nine months ended September 30, 2014. The decrease was primarily driven by a decline in RCM services revenue of \$105.7 million, from \$143.7 million in RCM service revenue recognized for the nine months ended September 30, 2014 to \$38.0 million in RCM service revenue recognized for the nine months ended September 30, 2015, primarily driven by a decrease in RCM contractual agreement events. Other service fees revenues decreased by \$8.1 million to \$10.9 million for the nine months ended September 30, 2015, from \$19.0 million for the nine months ended September 30, 2014, driven primarily by a decline in PAS revenue due to the negative impact of the "two-midnight rule".

##### Gross Cash Generated from Customer Contracting Activities (Non-GAAP)

Gross cash generated from customer contracting activities totaled \$157.5 million for the nine months ended September 30, 2015 compared to \$172.9 million for the nine months ended September 30, 2014, a decrease of \$15.4 million. The decrease of \$5.6 million, from \$152.2 million in RCM service revenue recognized for the nine months ended September 30, 2014 to \$146.6 million in net service revenue recognized for the nine months ended September 30, 2015, was primarily due to \$5.5 million of credits given to customers to potentially expand future profitability

opportunities by transitioning off of a legacy pricing model, to resolve a customer issue and to remove the early termination option of a customer contract. Additionally, there was a \$7.7 million decrease due to the negative impact of the two-midnight rule on our PAS business and a \$1.7 million decrease due to population health services revenue in 2014, which services were not offered on a stand alone basis in 2015. For an explanation of how we calculate gross cash generated from customer contracting activities, refer to the reconciliation of GAAP and Non-GAAP measures above.

#### Costs of Services

Costs of services decreased by \$8.0 million, or 5.8%, to \$130.3 million for the nine months ended September 30, 2015, from \$138.3 million for the nine months ended September 30, 2014. The decrease in cost of services was primarily attributable to decreased volumes in our PAS business and reduction in our infused management expense due to our initiative to optimize the allocation of resources deployed to our customer sites.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$6.1 million, or 11.4%, to \$59.7 million for the nine months ended September 30, 2015, from \$53.6 million for the nine months ended September 30, 2014. The increase was due to an increase in stock based compensation expense of \$9.5 million resulting from an increase in RSAs granted and a cash bonus of \$1.8 million paid to the 2014 Bonus Plan RSA Grantees during the the three months ended September 30, 2015. In addition, an increase of \$3.1 million was due to the modification of share based awards granted to a former member of our board of directors and former Chief Executive Officer during the second quarter of 2015. This increase was offset by a decrease in other expenses by \$3.4 million primarily due to continuation of cost reduction initiatives started in prior years.

#### Net Cash Generated from Customer Contracting Activities (Non-GAAP)

Net cash generated from customer contracting activities totaled a use of \$0.6 million for the nine months ended September 30, 2015, compared to \$1.0 million of cash generated for the nine months ended September 30, 2014. This change of \$1.6 million was primarily due to a decrease in gross cash generated offset by a decrease in cost of services. For an explanation of how we calculate net cash generated from customer contracting activities, refer to the Reconciliation of GAAP and Non-GAAP measures above.

#### Restatement and other

Restatement and other costs decreased by \$62.1 million, or 91.4%, to \$5.9 million for the nine months ended September 30, 2015, from \$67.9 million for the nine months ended September 30, 2014. The decrease was primarily driven by a decrease in Restatement-related costs of \$43.1 million, reorganization-related costs of \$13.9 million, \$6.1 million in costs associated with our Transformation Office and a decrease of \$0.3 million in other. This decrease was offset by an increase of \$1.4 million in costs related to exploration of potential strategic alternatives.

#### Income Taxes

Tax benefit increased by \$22.3 million to \$57.1 million for the nine months ended September 30, 2015, from \$34.9 million for the nine months ended September 30, 2014, primarily due to a reduction in pretax income. Our effective tax rate for the nine months ended September 30, 2015 and 2014 was 38.9% and 36.0%, respectively. Our tax rate is affected by discrete items that may occur in any given year, but not consistent from year to year. The increase in the effective tax rate for the nine months ended September 30, 2015 is primarily attributable to the correction of state expense accounted for discretely in the nine-month period ended September 30, 2014.

**CRITICAL ACCOUNTING POLICIES**

Management considers an accounting policy to be critical if the accounting policy requires management to make particularly difficult, subjective or complex judgments about matters that are inherently uncertain. A summary of our critical accounting policies is included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies and Use of Estimates" of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

**NEW ACCOUNTING PRONOUNCEMENTS**

For additional information regarding new accounting guidance, see Note 2, Recent Accounting Pronouncements, to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, which provides a summary of our recently adopted accounting standards and disclosures.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary source of liquidity is cash flows from operations. Given our current cash and cash equivalents and accounts receivable, we believe we will have sufficient funds to meet our operating, investing and financing needs for at least the next twelve months.

Our cash and cash equivalents were \$137.7 million at September 30, 2015 as compared to \$145.2 million as of December 31, 2014. Our cash and cash equivalents, at any time, include amounts paid to us in advance by customers for the purpose of reimbursing their revenue cycle operation costs. See Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Cash flows from operating, investing and financing activities, as reflected in our condensed consolidated statements of cash flows, are summarized in the following table (in thousands):

Cash Flows	Nine Months Ended	
	September 30, 2015	2014
Net cash provided by (used in):		
Operating activities	\$6,471	\$(31,850)
Investing activities	(18,304)	(3,206)
Financing activities	4,949	(104)
Operating Activities		

Cash provided by operating activities for the nine months ended September 30, 2015 totaled \$6.5 million, as compared to cash used of \$31.9 million for the nine months ended September 30, 2014. The increase in cash provided by operating activities of \$38.3 million was primarily attributable to the increase in customer liabilities of \$135.1 million offset by the \$27.7 million increase in net loss for the nine months ended September 30, 2015.

**Investing Activities**

Cash used in investing activities increased by \$15.1 million, from \$3.2 million for the nine months ended September 30, 2014 to \$18.3 million for the nine months ended September 30, 2015. Cash used in investing activities for the nine months ended September 30, 2015 was primarily attributable to the purchase of computer

hardware and software and to additional leasehold improvements related to the build out of a new shared service center to support the growth of our business.

#### Financing Activities

Cash provided by financing activities increased to \$4.9 million for the nine months ended September 30, 2015, primarily due to the expiration and non-renewal of our line of credit on February 15, 2015. As a result of such expiration, the \$5.0 million demand deposit that secured our line of credit was reclassified from restricted cash into cash and cash equivalents at March 31, 2015. This increase was also due to stock option exercises of \$1.3 million, offset by an increase in purchases of treasury shares of \$1.1 million.

#### Revolving Credit Facility

We maintained a line of credit with the Bank of Montreal in the amount of \$3.0 million. The \$3.0 million line of credit could only be utilized by us in the form of letters of credit and was secured by a \$5.0 million demand deposit with the Bank of Montreal. Any amounts outstanding under the line of credit accrued interest at the greater of the bank-established prime commercial rate, a LIBOR plus 1% rate, or a rate that combines the characteristics of both. The line of credit had an initial term of three years and was renewable annually thereafter. At December 31, 2014, we had outstanding letters of credit of approximately \$0.7 million, which reduced the available line of credit to \$2.3 million. Our line of credit expired on February 15, 2015 and was not renewed.

#### Future Capital Requirements

In connection with our strategic initiatives, we plan to continue to enhance customer service by increasing our investment in technology to enable our systems to more effectively integrate with our customers' existing technologies. We plan to continue to deploy resources to strengthen our information technology infrastructure in order to drive additional value for our customers. We also continue to invest in our shared services capabilities. We also plan on expanding our capabilities in India which will require investments. We may also selectively pursue acquisitions and/or strategic relationships that will enable us to broaden or further enhance our offerings.

Additionally, new business development remains a priority as we plan to continue to boost our sales and marketing efforts. We plan to continue to add experienced personnel to our sales organization, develop more disciplined sales processes, and create an integrated marketing capability.

#### OFF-BALANCE SHEET OBLIGATIONS

We do not have any off-balance sheet arrangements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Interest Rate Sensitivity

Our interest income is primarily generated from interest earned on operating cash accounts. We do not enter into interest rate swaps, caps or collars or other hedging instruments. As a result, we believe that the risk of a significant impact on our operating income from interest rate fluctuations is not substantial.

#### Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in the exchange rate between the U.S. dollar and the Indian rupee because a portion of our operating expenses are incurred by our subsidiary in India and are denominated in Indian rupees. However, we do not generate any revenues outside of the United States. For the nine months ended September 30, 2015 and 2014, 4.7% and 4.1%, respectively, of our expenses were denominated in Indian rupees. As a result, we believe that the risk of a significant impact on our operating income from foreign currency exchange rate fluctuations is not substantial.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management including its principal executive officer and principal financial officer to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. Based on our identification of material weaknesses in internal control over financial reporting described in "Item 9A - Control and Procedures" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (which was filed on June 23, 2015), or the 2014 10-K, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, our disclosure controls and procedures were not effective.

During 2014 and 2015, we spent considerable time and deployed considerable resources performing extensive analytics and substantive procedures and supporting the audit process to complete the restated financial statements for 2011, as well as the financial statements for the years ended December 31, 2012, 2013 and 2014. In light of these efforts, we were unable to remediate our material weaknesses; however, we continue to invest significant time and resources and take actions to remediate material weaknesses in our internal control over financial reporting.

While our remediation efforts continue, we have relied on and will continue to rely on extensive, temporary manual procedures and other measures as needed to assist us with meeting the objectives otherwise fulfilled by an effective internal control environment. These procedures include, but are not limited to hiring additional resources and retaining outside consultants with relevant accounting experience, skills and knowledge, working under our supervision and direction to assist with accounting functions and the financial statement preparation process for 2015.

Notwithstanding the existence of the material weaknesses as described in the 2014 10-K, we believe that the consolidated financial statements in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

### Remediation of Material Weaknesses in Internal Control Over Financial Reporting

Our management is committed to the planning and implementation of remediation efforts to address all material weaknesses as well as other identified areas of risk. These remediation efforts, summarized below, which are implemented, in the process of being implemented or are planned for implementation, are intended to address the identified material weaknesses and to enhance our overall financial control environment.

During 2013, 2014 and 2015, numerous changes were made throughout our organization and significant actions have been taken to reinforce the importance of a strong control environment, including training and other steps designed to strengthen and enhance our control culture.

To remediate the control environment deficiencies identified herein, our leadership team, including the Chief Executive Officer and the Chief Financial Officer, has reaffirmed and reemphasized the importance of internal control, control consciousness and a strong control environment.

To date we have:

- adopted new accounting policies for revenue recognition and software capitalization;
- established a contract governance committee to oversee all contracting activity;
- appointed experienced professionals to key leadership positions;
- established a new reporting structure with more clearly defined accountabilities;
- implemented a new internal reporting model and performance metrics based on cash flow performance;
- centralized certain accounting functions and revised organizational structures to enhance accurate reporting and ensure appropriate accountability;
- hired additional accounting personnel with appropriate backgrounds and skill sets, including professionals with certified public accountant qualifications, master's degrees and public accounting experience and created new positions for a Director of Revenue and a Director of Taxes;
- completed the implementation of a more robust contract governance structure to assure appropriate administration, compliance and accounting treatment for new or amended contract terms;
- established a contracting boundaries protocol to clarify the delegation of contracting authority to personnel involved in establishing customer contract terms;
- established a formal delegation of authority from the Board of Directors to management with further delegation to accountable personnel;
- expanded the use of our financial reporting systems to facilitate more robust analysis of operating performance, budgeting and forecasting;
- strengthened our current disclosure committee with formalized processes to enhance the transparency of our external financial reporting;
- restructured key revenue, cost and related reimbursement accounting policies and processes; and
- executed our financial account closing and the financial statement preparation process in a timely and accurate manner.

Our management believes that meaningful progress has been made against remaining remediation efforts; although timetables vary, management regards successful completion as an important priority. Remaining remediation activities include:

- establishing additional programs to provide appropriate accounting and controls training to financial, operations and sales staff and corporate executives on an ongoing basis; and

continue executing our Sarbanes-Oxley compliance procedures.

When fully implemented and operational, our management believes the measures described above will remediate the control deficiencies we have identified and strengthen our internal control over financial reporting. We are committed to improving our internal control processes and intend to continue to review and improve our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

#### Changes in Internal Control Over Financial Reporting

Other than matters discussed in this Item 4, there have been no changes in our internal control over financial reporting since our last Annual Report filed on Form 10-K for the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Other than as described below, the Company is not presently a party to any material litigation or regulatory proceeding and is not aware of any pending or threatened litigation or regulatory proceeding against the Company which, individually or in the aggregate, could have a material adverse effect on its business, operating results, financial condition or cash flows.

On January 19, 2012, the State of Minnesota, by its Attorney General, filed a complaint against the Company in the United States District Court for the District of Minnesota, alleging violations of federal and Minnesota state health privacy laws and regulations, Minnesota debt collection laws, and Minnesota consumer protection laws resulting from, among other things, the theft in Minnesota in July 2011 of an employee's laptop that contained protected health information. On January 25, 2012, the Commissioner of the Minnesota Department of Commerce served the Company an administrative subpoena seeking information and documents about its debt collection practices and the privacy of personal and health data within its possession or control. On February 3, 2012, the Company entered into a Consent Cease and Desist Order with the Commissioner, voluntarily agreeing to cease all debt collection activity in the State of Minnesota. On July 30, 2012, without any admission of liability or wrongdoing, the Company entered into a Settlement Agreement, Release and Order with the Minnesota Attorney General to settle the lawsuit filed by the Minnesota Attorney General and the investigation commenced by the Minnesota Department of Commerce and to resolve fully all disputes which in any way related to, arose out of, emanated from, or otherwise involved such lawsuit or investigation and all investigations by the Minnesota Attorney General, the Minnesota Department of Commerce, and the Minnesota Department of Human Services relating to the Company. As part of the settlement, the Company paid a settlement sum of \$2.5 million and voluntarily agreed to cease all remaining operations in Minnesota.

On April 26, 2012 and May 1, 2012, the Company, along with certain of its former officers, was named as a defendant in two putative securities class action lawsuits filed in the U.S. District Court for the Northern District of Illinois, which were consolidated as *Wong v. Accretive Health et al.* The primary allegations are that the Company's public statements, including filings with the SEC, were false and/or misleading about its violations of certain federal and Minnesota privacy and debt collection laws. On September 26, 2013, without any admission of liability or wrongdoing, the Company entered into a Settlement Agreement to resolve these suits for \$14 million, which has been funded into escrow by its insurance carriers. On April 30, 2014, the U.S. District Court for the Northern District of Illinois granted final approval of the Settlement Agreement. A single objector to the Settlement Agreement appealed to the U.S. Court of Appeals for the Seventh Circuit, and on December 9, 2014, the court of appeals affirmed the district court's approval of the settlement. On December 23, 2014, that objector submitted a petition for en banc rehearing, which was denied on January 26, 2015.

In addition, the Company, along with certain of its directors and former officers, has been named in several putative shareholder derivative lawsuits filed in the U.S. District Court for the Northern District of Illinois on May 3, 2012 and July 31, 2012 (consolidated as *Maurras Trust v. Accretive Health et al.*), in the Circuit Court of Cook County, Illinois on June 23, 2012 and June 27, 2012 (consolidated as *In re Accretive Health, Inc. Derivative Litigation*) and in the Court of Chancery of the State of Delaware on November 5, 2012 (*Doyle v. Tolan et al.*). The primary allegations are that its directors and officers breached their fiduciary duties in connection with the alleged violations of certain federal and Minnesota privacy and debt collection laws.

On July 11, 2013, the Court of Chancery of the State of Delaware granted the Company's motion to stay *Doyle v. Tolan et al.*, in favor of the action pending in the U.S. District Court for the Northern District of Illinois. On September 24, 2013, the U.S. District Court for the Northern District of Illinois granted the Company's motion to dismiss without prejudice, giving plaintiffs in that case leave to file an amended consolidated complaint, which plaintiffs filed on October 22, 2013, amending their complaint to also include allegations with respect to the Restatement. On February 25, 2015, the Company entered a settlement agreement with plaintiffs in all of these suits that would resolve the derivative actions, on the basis of certain governance reforms already implemented and



payment of attorneys' fees in the amount of \$0.6 million. On July 23, 2015, the U.S. District Court for the Northern District of Illinois granted final approval of the settlement agreement. The Delaware and Cook County derivative suits are within the scope of the settlement approved by the federal district court and were dismissed on August 12, 2015 and August 17, 2015, respectively

On May 17, 2013, the Company, along with certain of its directors, former directors and former officers, was named as a defendant in a putative securities class action lawsuit filed in the U.S. District Court for the Northern District of Illinois (*Hughes v. Accretive Health, Inc. et al.*). The primary allegations, relating to its March 8, 2013 announcement that the Company would be restating its prior period financial statements, are that its public statements, including filings with the SEC, were false and/or misleading with respect to its revenue recognition and earnings prospects. On November 27, 2013, plaintiffs voluntarily dismissed the Company's directors and former directors (other than Mary Tolan). On January 31, 2014, the Company filed a motion to dismiss the complaint. On September 25, 2014, the Court granted the Company motion to dismiss without prejudice, however the plaintiffs filed a second amended complaint on October 23, 2014. On November 10, 2014, the Company filed a motion to dismiss the second amended complaint. While that motion was still pending, on January 8, 2015, plaintiffs filed a motion to amend the second amended complaint, seeking to add allegations regarding the recently issued Restatement. On April 22, 2015, the court granted plaintiffs' motion to amend, and a third amended complaint was filed on May 13, 2015. The Company moved to dismiss the third amended complaint on June 3, 2015. That motion is fully briefed and awaiting decision. The Company continues to believe it has meritorious defenses and intends to vigorously defend itself, Mary Tolan, and its former officers against these claims. The outcome is not presently determinable.

The SEC's Division of Enforcement in the Chicago Regional Office is also conducting an investigation regarding the circumstances surrounding the Restatement. The Company is fully cooperating with the investigation.

On February 11, 2014, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Southern District of Alabama (*Church v. Accretive Health, Inc.*). The primary allegation is that the Company attempted to collect debts without providing the notice required by the Fair Debt Collections Practice Act, or the FDCPA. The Company believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The Company's summary-judgment motion is now fully briefed and pending before the Court. Class-certification proceedings have been deferred until that summary-judgment motion has been resolved. The outcome is not presently determinable.

On July 22, 2014, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Michigan (*Anger v. Accretive Health, Inc.*). The primary allegations are that the Company attempted to collect debts without providing the notice required by the FDCPA and Michigan Fair Debt Collection Practices Act and failed to abide by the terms of an agreed payment plan in violation of those same statutes. On August 27, 2015, the Court granted in part and denied in part the Company's motion to dismiss. A scheduling conference was held on October 26, 2015, and the Company expects discovery to be underway shortly. The Company believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome is not presently determinable.

On February 6, 2015, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Michigan (*Cassale v. Accretive Health, Inc.*). The primary allegations were that the Company attempted to collect debts without complying with the provisions of the FDCPA. The case was settled in April 2015.

On February 24, 2015 (amended Feb. 25, 2015), the Plaintiff in the Church action (above) filed a motion with the Joint Panel for Multidistrict Litigation to transfer and consolidate the Church, Anger and Cassale actions for pretrial purposes in the Southern District of Alabama where the Church case is currently pending. That motion was withdrawn in May 2015.

In April 2015, the Company was named among other defendants in an employment action brought by Jennifer Worthy, a former employee, before the Maine Human Rights Commission, or the MHRC, alleging that she was



improperly terminated in retaliation for uncovering alleged Medicare fraud. The Company filed its response with the MHRC on May 19, 2015 seeking that the Company be dismissed entirely from the action. On June 23, 2015, the MHRC issued its Notice of Right to Sue and decision to terminate its process with respect to all charges asserted by Ms. Worthy. On January 12, 2015, Plaintiff Worthy filed a Second Amended Complaint (Filed under Seal), a qui tam False Claims Act case in the United States District Court in Maine (Worthy v. Eastern Maine Healthcare Systems) in which she makes the same allegations. The U.S. Department of Justice declined to intervene in the federal court action, and the case was unsealed in April 2015 but process has not been served on any defendant. The Company believes that it has meritorious defenses to both the potential employment law action for which the MHRC has granted the Notice of Right to Sue letter and the federal qui tam case, and intends to vigorously defend itself against these claims. The outcomes are not presently determinable.

On June 17, 2015, the Company filed a confidential arbitration demand with the American Arbitration Association against Salem Hospital for unpaid fees due under the parties' Health Services Agreement in an aggregate amount of \$9.3 million. On July 31, 2015, Salem Hospital filed its answer, in which it denied the Company's claims and asserted counterclaims against the Company in the amount of \$2.7 million. The outcome is not presently determinable.

#### ITEM 1A. RISK FACTORS

Other than as noted below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 ("Form 10-K"). The risk factors disclosed under this Part II, Item 1A and in Part I, Item 1A of the Form 10-K, in addition to the other information set forth in this Quarterly Report on Form 10-Q, could materially affect our business, financial condition, or results. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition, or results.

We are in the process of conducting a review of strategic alternatives that could adversely impact our business or our stock price.

In July 2015, we received an unsolicited letter from Ascension Health, whose affiliated hospital systems represent approximately 50% of our total gross cash generated from contracting activities for the year ended December 31, 2014, stating that Ascension Health did not anticipate entering into a new Master Professional Services Agreement with us when the current agreement expires in 2017, but that it was open to discussing a potential transaction under which our company would be taken private by Ascension Health (alone or with co-investment partners of its choosing) and remain a standalone, for profit company servicing RCM customers. In that regard, Ascension Health provided a preliminary per share value range of our company, with the midpoint of the range being approximately 50% of our market value at the closing stock price on July 16, 2015. In response to the letter from Ascension Health, in July 2015, our board of directors, or our Board, commenced a review of strategic alternatives in order to enhance stockholder value. The strategic review process, as well as unsolicited offers from Ascension and others, could expose us to a number of risks, including fluctuations in our stock price in response to developments or speculation regarding any developments related to the review of strategic alternatives and/or expressed interests; distraction of management; difficulties in hiring, retaining and motivating key personnel as a result of uncertainty generated by the strategic review and/or expressed interests or any related developments; difficulties in initiating, expanding and maintaining relationships or arrangements with customers, suppliers and other third parties; substantial increases in general and administrative expenses associated with the need to retain and compensate legal, financial, and other advisors as a result of the strategic review and/or expressed interests; and litigation in connection with the strategic review and/or expressed interests or any related developments or actions. There can be no assurance that the strategic review and/or expressed interests will result in consummation of any transaction. The occurrence of any one or more of the above risks could result in a valuation allowance against our deferred tax assets or otherwise have an adverse impact on our business, stock price, financial results, liquidity, and financial condition.

We may not be able to achieve or maintain profitability.

We incurred net losses in 2014, 2012, 2011 and 2010. We expect to report additional quarterly and annual losses in future periods, in accordance with GAAP. We incurred significant expenses during 2013 and 2012 related to, among other things, legal defense, crisis management costs, and stranded personnel costs arising from the lawsuit filed in January 2012 by the Minnesota Attorney General that is described in "Part II - Item 1 - Legal Proceedings" and that we settled in 2012. We incurred significant costs for the Restatement, restructuring activities and legal proceedings during 2014 and 2013 and are likely to continue to incur additional costs in connection with those matters, as well as in connection with our review of strategic alternatives, in 2015. Further, we anticipate continuing to incur significant additional costs for technology to improve the quality and reliability of the processes used to secure patient health information. We intend to continue to increase our operating expenses associated with sales and marketing in future years in an effort to expand our business. If our revenue does not increase to offset these increases in costs, our operating results would be adversely affected. You should not consider our historical operating results as indicative of future operating results, and we cannot assure you that we will be able to achieve or maintain profitability in the future. Each of the risks described in this "Risk Factors" section, as well as other factors, may adversely affect our future operating results.

Hospital systems affiliated with Ascension Health currently account for a significant portion of our net services revenue as well as our gross cash generated from contracting activities, and we have several other customers that have each accounted for 10% or more of our gross cash generated from contracting activities in past periods. Any significant loss of business from our large customers, would have a material adverse effect on our business, results of operations and financial condition.

In August 2012 we entered into the five-year MPSA with Ascension Health. As a result of the fact that substantially all of the hospital systems affiliated with Ascension Health for which we previously conducted RCM operations have opted in to the MPSA by executing a new supplement agreement with us, on February 27, 2015, Ascension Health provided us notice of termination of our prior master services agreement with Ascension Health dated December 31, 2007 (which we refer to as the Legacy Agreement), with such termination to be effective as of December 31, 2015. We continue to provide services to one physician group affiliated with Ascension Health pursuant to the Legacy Agreement that did not execute a new supplement agreement with us. We ceased providing services under the Legacy Agreement to one customer in the second quarter of 2014, which customer did not execute a supplement agreement with us and to one additional customer that was acquired by a third party in the first quarter of 2015. Ascension Health notified us in July 2015 that it does not anticipate entering into a new Master Professional Services Agreement, or MPSA, with us when the current agreement expires in 2017.

Hospital systems affiliated with Ascension Health have accounted for a significant portion of our net services revenue each year since our formation. In 2014, 2013 and 2012, net services revenue from hospitals affiliated with Ascension Health represented 12%, 73% and 5% of our total net services revenue, respectively, in such periods. Additionally, in 2014, 2013 and 2012, gross cash generated from customer contracting activities, as defined in "Part I - Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, with hospital systems affiliated with Ascension Health represented 53%, 42% and 47%, respectively, of our total gross cash generated from contracting activities in such periods. St. John Health (an affiliate of Ascension Health ) individually accounted for 12%, 28% and 1% of our total net services revenue and 12%, 7% and 10% of our gross cash generated from contracting activities in 2014, 2013 and 2012, respectively. Additionally, in 2014, Columbia St. Mary's and Sacred Heart (also affiliates of Ascension Health) individually accounted for 0% and 12% of our total net services revenue and 10% and 1% of our gross cash generated from contracting activities, respectively.

In light of the fact that we only recognize revenues for our RCM services upon the expiration or termination of the underlying RCM customer contract, or upon other defined events in accordance with our revenue recognition policies, we believe that gross cash generated from contracting activities is a more meaningful measure of our significant customers in any given period than their respective contributions to consolidated revenue during such period. Our revenue recognition policies can result in cash flow accumulations from RCM activities over three to five years prior to a revenue recognition event, and consolidated net revenues that are inconsistent with the cash flows from the same

underlying operations. We do not believe that the loss of any of our other customers that

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accounted for greater than ten percent of our consolidated revenues in 2014, 2013 and 2012 would have a material adverse effect on our operations or financial results. Any of our other customers, including hospital systems affiliated with Ascension Health, can elect not to renew their managed services agreements with us upon expiration. We intend to seek renewal of all managed service agreements with our customers, but cannot assure you that any of them will be renewed or that the terms upon which they may be renewed will be as favorable to us as the terms of the initial managed services agreements. Ascension Health notified us in July 2015 that it does not anticipate entering into a new MPSA when the current agreement expires in 2017. The termination of the MPSA (including as a result of non-renewal), the loss of any of our other large customers or their failure to renew their managed services agreements with us upon expiration, or a reduction in the fees for our services for these customers could result in a valuation allowance against our deferred tax assets or otherwise have a material adverse effect on our business, results of operations and financial condition.

If we are unable to retain our existing customers or acquire new customers, our financial condition will suffer. Our success depends in part upon the retention of our customers, particularly Ascension Health and its affiliated hospitals, and our ability to acquire new customers. We derive our net services revenue primarily from managed services agreements pursuant to which we receive performance-based fees. Customers can elect not to renew their managed services agreements with us upon expiration. Ascension Health notified us in July 2015 that it does not anticipate entering into a new MPSA when the current agreement expires in 2017. If a managed services agreement is not renewed for any reason, we would not derive the financial benefits that we would expect to derive by serving that customer beyond the initial term of our managed services agreement. If a managed services agreement is terminated for any reason, including for example, if we are found to be in violation of certain federal or state laws or excluded from participating in federal and state healthcare programs such as Medicare and Medicaid, we will not receive the payments we would have otherwise anticipated receiving over the life of the agreement.

Some of our managed services agreements require us to adhere to extensive, complex data security, network access and other institutional procedures and requirements of our customers, and we cannot guaranty that some of our customers will not allege that we have not complied with all such procedures and requirements. If we breach a managed services agreement or, for certain of our managed services agreements, fail to perform in accordance with contractual service levels, we may be liable to the customer for damages, and either we or the customer may generally terminate an agreement for a material uncured breach by the other. Any of these events could adversely affect our business, financial condition, operating results and cash flows. Ascension Health and another healthcare organization with multiple affiliates that contract with us individually under a master services agreement can also terminate their agreements with us if the receipt of services under the agreement causes or will cause a material negative impact to the customer's brand, reputation or operations, in such customer's good faith estimation, because of the manner in which we provided services for it or any other customer. In addition, financial issues or other changes in customer circumstances, such as a customer change in control (including as a result of increasing consolidation within the healthcare provider industry), may cause us or the customer to seek to modify or terminate a managed services agreement. Increasing consolidation within the healthcare provider industry may also make it more difficult for us to acquire new customers, as consolidated healthcare systems may be more likely to have incumbent revenue cycle management providers or significant internal revenue cycle capabilities. For example, certain of our smaller customers have been acquired by larger healthcare systems and ceased to be customers.

In 2014, two of our customers provided us with notices of termination of their respective RCM agreements with us, in accordance with the terms of those agreements. As a result of those notices, one such agreement terminated in the second quarter of 2014 and the other terminated in the third quarter of 2014. However, one of those customers entered into a new managed services agreement with us to provide revenue cycle services under new terms following the termination of its existing agreement.

Also in 2014, our RCM agreement with another customer expired, although we currently continue to provide certain services to that customer under the RCM agreement in connection with the resolution of specified payer accounts receivable in exchange for a fixed fee. We also entered into a new master services agreement with that customer pursuant to which we are providing certain specified RCM services.





The markets for our RCM service offering may develop more slowly than we expect and some potential customers for our services have been and may in the future be deterred by the lawsuit initiated against us by the Minnesota Attorney General, the Restatement, legal proceedings resulting from these challenges and by our recent announcement that our Board has resolved to undertake a review of strategic alternatives, or because they previously have made or in the future will make investments in internally developed solutions and choose to continue to rely on their own internal resources, which could adversely affect our revenue and our ability to achieve or maintain our profitability.

Our success depends, in part, on the willingness of hospitals, physicians and other healthcare providers to implement integrated solutions for the areas in which we provide services. Some hospitals may be reluctant or unwilling to implement our solutions for a number of reasons, including failure to perceive the need for improved revenue cycle operations or lack of knowledge about the potential benefits our solutions provide. In addition, some potential customers for our services may be deterred by the lawsuit initiated against us by the Minnesota Attorney General that we settled in 2012, or the Restatement, the resulting related legal proceedings and by our recent announcement that our Board has resolved to undertake a review of strategic alternatives.

Even if potential customers recognize the need to improve revenue cycle operations, they may not select solutions such as ours because they previously have made or in the future will make investments in internally developed solutions and choose to continue to rely on their own internal resources. As a result, the markets for integrated, end-to-end revenue cycle management services may develop more slowly than we expect, which could adversely affect our revenue and operating results.

We face a selling cycle of variable length to secure new RCM agreements, making it difficult to predict the timing of specific new customer relationships.

We face a selling cycle of variable length, typically spanning six to 18 months or longer, to secure a new managed services agreement. Even if we succeed in developing a relationship with a potential new customer, we may not be successful in entering into a managed services agreement with that customer. In addition, we cannot accurately predict the timing of entering into managed services agreements with new customers due to the complex procurement decision processes of most healthcare providers, which often involves high-level management or board committee approvals. Consequently, we have only a limited ability to predict the timing of specific new customer relationships. Moreover, we believe that the unfavorable publicity we received as a result of the lawsuit initiated against us by the Minnesota Attorney General that we settled in 2012, the Restatement, and the resulting related legal proceedings have reduced our attractiveness to some potential healthcare providers and consequently, have resulted in the lengthening of the selling cycle with potential new customers. Our recent announcement that our Board has resolved to undertake a review of strategic alternatives may also reduce our attractiveness to some potential healthcare providers and increase the length of our selling cycle with potential new customers.

If we lose key personnel or if we are unable to attract, hire, integrate and retain our key personnel and other necessary employees, our business could be harmed.

Our future success depends in part on our ability to attract, hire, integrate and retain key personnel. Our future success also depends in part on the continued contributions of our executive officers and other key personnel, each of whom may be difficult to replace. The loss of services of any of our executive officers or key personnel, or the inability to continue to attract qualified personnel could have a material adverse effect on our business, particularly as a result of our recent and ongoing restructuring activities. Competition for the caliber and number of employees we require is intense. We may face difficulty identifying and hiring qualified personnel at compensation levels consistent with our existing compensation and salary structure, including as a result of our recent announcement that our Board has resolved to undertake a review of strategic alternatives and as a result of our announcement that Ascension Health has notified us that it does not intend to enter into a new MPSA with us when the current agreement expires in 2017. In addition, we invest significant time and expense in training each of our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring, integrating and training their replacements, and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect on our business.



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

## Unregistered Sale of Equity Securities

We granted options to purchase an aggregate of 128,458 shares of our common stock with exercise prices ranging from \$2.39 to \$5.45 per share, and we issued 4,553,429 shares of restricted stock during the three months ended September 30, 2015 to employees and directors pursuant to our 2010 Stock Incentive Plan and/or in reliance upon the exemption from the registration requirements of the Securities Act of 1933, or Securities Act, provided by Section 4(a)(2) of the Securities Act as sales by an issuer not involving any public offering, as set forth in the tables below. No underwriters were involved in the foregoing transactions. All of such unregistered shares of common stock are deemed restricted securities for purposes of the Securities Act. No such options have been exercised.

The following table sets forth the dates on which such options were granted and the number of shares of common stock subject to such options, the exercise price and the number of employees and directors granted options on each date from July 1, 2015 through September 30, 2015:

Date of Grant	Common Stock Subject to Options Granted	Exercise Price	Number of Employees and Directors Granted Options
7/1/2015	22,900	\$5.45	4
7/2/2015	5,558	\$5.40	1
7/23/2015	100,000	\$2.39	1
	128,458		

The following table sets forth the dates on which such shares of restricted stock were granted and the number of shares of restricted stock and the number of employees and directors granted restricted stock on each date from July 1, 2015 through September 30, 2015:

Date of Grant	Number of Restricted Common Stock Granted	Number of Employees and Directors Granted Restricted Stock
7/9/2015	1,825,946	175
7/23/2015	345,063	4
8/17/2015	2,382,420	7
	4,553,429	

## Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the periods indicated (in thousands, except share and per share data):

Period	Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs (2)
July 1, 2015 through July 31, 2015	227,873	\$ 5.34	—	\$ 50,000
August 1, 2015 through August 31, 2015	38,886	\$ 2.70	—	\$ 50,000
September 1, 2015 through September 30, 2015	21,731	\$ 2.73	—	\$ 50,000

Repurchases of our common stock related to employees' tax withholding upon vesting of RSAs. See Note 7, (1) Share-Based Compensation, to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

On November 13, 2013, our board of directors announced that it authorized, subject to the completion of the Restatement, the repurchase of up to \$50.0 million of our common stock from time to time in the open market or in privately negotiated transactions, or the 2013 Repurchase Program. The timing and amount of any shares (2) repurchased under the 2013 Repurchase Program will be determined by our management based on its evaluation of market conditions and other factors. The 2013 Repurchase Program may be suspended or discontinued at any time. We currently intend to fund any repurchases from cash on hand. We did not repurchase any shares of common stock under the 2013 Repurchase Program during the quarter ended September 30, 2015.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Certificate of Amendment and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)
3.2	Amendment No. 1 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)
10.1	Amended and Restated 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)
10.2	Retention Bonus and Enhanced Severance Agreement, dated August 12, 2015, between Registrant and Emad Rizk
10.3	Amendment to Retention and Severance Bonus Agreement, dated October 19, 2015, between Registrant and Emad Rizk
10.4	Retention Bonus and Enhanced Severance Agreement, dated August 12, 2015, between Registrant and Peter Csapo
10.5	Retention Bonus and Enhanced Severance Agreement, dated August 12, 2015, between Registrant and Joseph Flanagan
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.DEF	XBRL Taxonomy Extension Document
101.PRE	XBRL Presentation Linkbase Document

**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.

Date: November 9, 2015

ACCRETIVE HEALTH, INC  
(Registrant)

By:

/s/ Emad Rizk  
Emad Rizk  
President and Chief Executive Officer

By:

/s/ Peter P. Csapo  
Peter P. Csapo  
Chief Financial Officer and Treasurer