Accretive Health, Inc.
Form 10-K/A
August 05, 2015

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

Form 10-K/A
(Amendment No. 1)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
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 (State or other jurisdiction of incorporation or organization)	02-0698101 (I.R.S. Employer Identification No.)
401 North Michigan Avenue Suite 2700 Chicago, Illinois (Address of principal executive offices)	60611 (Zip Code)

(312) 324-7820
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer ¨	Accelerated filer ý	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company o

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sale price for such stock on June 30, 2014: $454,304,464.

As of June 1, 2015, the registrant had 97,948,301 shares of common stock, par value $0.01 per share, outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-K (this “Amendment”) amends the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “Original 10-K”) filed by Accretive Health, Inc., a Delaware corporation (“Accretive,” “we” or “our”), on June 23, 2015 (the “Original Filing Date”). We are filing this Amendment to correct a clerical error in the report of Ernst & Young LLP (“E&Y”), our independent registered public accounting firm, on the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), stockholders’ equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014 (the “E&Y Report”). This clerical error was the omission of the E&Y signature line from E&Y’s Report that was included in the Original 10-K. In accordance with Rule 12b-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), this Amendment sets forth the complete text of Item 8 of Part II of the Original 10-K, which has been amended solely to provide the appropriate E&Y Report that includes the E&Y signature line.

This Amendment speaks only as of the Original Filing Date, does not reflect events that may have occurred subsequent to the Original Filing Date, and does not modify or update in any way the disclosures made in the Original 10-K, including, without limitation, the financial statements and accompanying notes. Except as described above, no changes have been made to the Original 10-K. This Amendment should be read in conjunction with the Original 10-K and our other filings made with the Securities and Exchange Commission subsequent to the Original Filing Date.

Pursuant to Rule 12b-15 of the Exchange Act, the certifications required pursuant to Rule 13a-14(a) and Rule 13a-14(b) of the Exchange Act, which were included as exhibits to the Original 10-K, have been re-executed as of the date of this Amendment and are included as Exhibits 31.3, 31.4, 32.3 and 32.4 hereto.

ACCRETIVE HEALTH, INC.
TABLE OF CONTENTS

PART II

Item 8. Consolidated Financial Statements and Supplementary Data

The financial statements required by this Item are located beginning on page F-1 of this report.

1

PART IV

Item 15. Exhibits and Financial Statement Schedules

a) The following documents are filed as a part of this report:

(1) Financial Statements: The financial statements and notes thereto annexed to this report beginning on page F-1.

(2) Financial Statement Schedules: Schedule II- Valuation and Qualifying Accounts Disclosure schedules have been omitted because they are not required or because the required information is in the Consolidated Financial Statements and notes thereto.

(3) Exhibits: The following documents are filed as a part of this report:

Exhibit Number	Description
31.3	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.3	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
32.4	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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

	ACCRETIVE HEALTH, INC.
By:	/s/ Emad Rizk
	Emad Rizk
	President and Chief Executive Officer

Date: August 5, 2015

3

Accretive Health, Inc.
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Accretive Health, Inc.

We have audited the accompanying consolidated balance sheets of Accretive Health, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Accretive Health, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Accretive Health, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 23, 2015, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
June 23, 2015

Accretive Health, Inc.
Consolidated Balance Sheets
(In thousands, except per share data)

	December 31, 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$145,167	$228,891
Restricted cash	5,000	—
Accounts receivable, net	4,438	24,557
Prepaid income taxes	6,138	9,738
Current deferred tax assets	62,322	105,015
Other current assets	7,389	6,943
Total current assets	230,454	375,144
Property, equipment and software, net	14,594	16,275
Non-current deferred tax asset	201,163	112,993
Restricted cash	—	5,000
Goodwill and other assets, net	162	579
Total assets	446,373	509,991
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	12,488	4,254
Current portion of customer liabilities	219,998	356,694
Accrued compensation and benefits	14,983	11,810
Other accrued expenses	15,680	20,046
Total current liabilities	263,149	392,804
Non-current portion of customer liabilities	317,065	195,392
Other non-current liabilities	8,405	7,407
Total liabilities	588,619	595,603
Stockholders' equity (deficit):		
Common stock, $0.01 par value, 500,000,000 shares authorized, 102,890,241 shares issued and 98,112,019 shares outstanding at December 31, 2014; 100,525,241 shares issued and 96,010,911 shares outstanding at December 31, 2013	1,029	1,005
Additional paid-in capital	307,075	283,439
Accumulated deficit	(397,517)	(317,897)
Accumulated other comprehensive loss	(1,763)	(1,459)
Treasury stock	(51,070)	(50,700)
Total stockholders' equity (deficit)	(142,246)	(85,612)
Total liabilities and stockholders' equity (deficit)	446,373	509,991

See accompanying notes to consolidated financial statements.

Accretive Health, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Net services revenue	$210,140	$504,768	$72,254
Operating expenses:			
Cost of services	182,144	186,752	188,666
Selling, general and administrative	69,883	79,951	67,750
Restatement and other	86,766	33,963	3,714
Total operating expenses	338,793	300,666	260,130
Income (loss) from operations	(128,653)	204,102	(187,876)
Net interest income	302	330	141
Income (loss) before income tax provision	(128,351)	204,432	(187,735)
Income tax provision (benefit)	(48,731)	74,349	(67,995)
Net income (loss)	$(79,620)	$130,083	$(119,740)
Net income (loss) per common share:			
Basic	$(0.83)	$1.36	$(1.21)
Diluted	$(0.83)	$1.34	$(1.21)
Weighted average shares used in calculating net income (loss) per common share:			
Basic	95,760,762	95,687,940	98,602,099
Diluted	95,760,762	96,845,664	98,602,099
Consolidated statements of comprehensive income (loss)			
Net income (loss)	(79,620)	130,083	(119,740)
Other comprehensive loss:			
Foreign currency translation adjustments	(304)	(703)	(46)
Comprehensive income (loss)	$(79,924)	$129,380	$(119,786)

See accompanying notes to consolidated financial statements.

F-4

Accretive Health, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except per share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated other comprehensive (loss)	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2012	98,701,161	$987	(14,804)	$(379)	$226,911	$(328,240)	$(710)	$(101,431)
Share-based compensation expense	—	—	—	—	25,298	—	—	25,298
Issuance of common stock related to share-based compensation plans	1,306,377	13	—	—	7,383	—	—	7,396
Excess tax benefit from share based compensation plans net of deferred tax asset write off of $1,920	—	—	—	—	2,483	—	—	2,483
Treasury stock purchases	—	—	(4,322,683)	(50,160)	—	—	—	(50,160)
Foreign currency translation adjustments	—	—	—	—	—	—	(46)	(46)
Net loss	—	—	—	—	—	(119,740)	—	(119,740)
Balance at December 31, 2012	100,007,538	$1,000	(4,337,487)	$(50,539)	$262,075	$(447,980)	$(756)	$(236,200)
Share-based compensation expense	—	—	—	—	25,025	—	—	25,025
Deferred tax asset write off net of excess tax benefit of $15	—	—	—	—	(3,702)	—	—	(3,702)
Issuance of common stock related to share-based compensation plans	517,703	5	—	—	41	—	—	46
Treasury stock purchases	—	—	(176,843)	(161)	—	—	—	(161)
Foreign currency translation	—	—	—	—	—	—	(703)	(703)

adjustments								
Net income	—	—	—	—	—	130,083	—	130,083
Balance at December 31, 2013	100,525,241	$1,005	(4,514,330)	$(50,700)	$283,439	$(317,897)	$(1,459)	$(85,612)
Share-based compensation expense	—	—	—	—	27,181	—	—	27,181
Deferred tax asset write off including shortfall of $176	—	—	—	—	(3,521)	—	—	(3,521)
Issuance of common stock related to share-based compensation plans	2,365,000	24	—	—	(24)	—	—	—
Treasury stock purchases	—	—	(263,892)	(370)	—	—	—	(370)
Foreign currency translation adjustments	—	—	—	—	—	—	(304)	(304)
Net income	—	—	—	—	—	(79,620)	—	(79,620)
Balance at December 31, 2014	102,890,241	$1,029	(4,778,222)	$(51,070)	$307,075	$(397,517)	$(1,763)	$(142,246)

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2014	2013	2012
Operating activities			
Net income (loss)	$(79,620)	$130,083	$(119,740)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation and amortization	6,047	6,823	6,355
Share-based compensation	27,181	25,025	25,298
Loss on disposal	1,604	—	—
Provision (recovery) for doubtful receivables	(430)	634	183
Deferred income taxes	(49,227)	79,356	(76,887)
Excess tax benefit from share-based awards	(176)	(15)	(4,403)
Changes in operating assets and liabilities:			
Accounts receivable	20,548	658	(8,926)
Prepaid income taxes	3,794	(4,836)	6,980
Other assets	(47)	14,434	(1,571)
Accounts payable	8,251	3,378	(358)
Accrued compensation and benefits	3,174	3,813	(7,581)
Other liabilities	(3,312)	(2,955)	2,166
Customer liabilities	(15,023)	(201,975)	207,650
Net cash provided by (used in) operating activities	(77,236)	54,423	29,166
Investing activities			
Purchases of property, equipment, and software	(6,034)	(1,877)	(10,544)
Net cash used in investing activities	(6,034)	(1,877)	(10,544)
Financing activities			
Excess tax benefit from share-based awards	176	15	4,403
Exercise of vested stock options	—	46	7,396
Purchase of treasury stock	(370)	(161)	(50,160)
Collection of non-executive employee loans	—	—	—
Net cash used in financing activities	(194)	(100)	(38,361)
Effect of exchange rate changes in cash	(260)	(511)	(30)
Net increase (decrease) in cash and cash equivalents	(83,724)	51,935	(19,769)
Cash and cash equivalents, at beginning of year	228,891	176,956	196,725
Cash and cash equivalents, at end of year	$145,167	$228,891	$176,956
Supplemental disclosures of cash flow information			
Income taxes paid	$(801)	$(1,742)	$(1,531)
Income taxes refunded	$3,014	$754	$87
Supplemental disclosure of non-cash operating activities			
Non-cash increase in litigation liability and related insurance receivable included in other liabilities and other assets, respectively	$—	$—	$14,000

See accompanying notes to consolidated financial statements.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 1. Description of Business

Accretive Health, Inc. (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 its end-to-end revenue cycle management service and physician advisory service offerings. 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 offer 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 third-party payers. The Company’s physician advisory services offering assists hospitals in complying with third-party payers’ 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. The Company also provides customers with retrospective appeal management service support for both governmental and commercial payers.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The preparation of financial statements in conformity with the United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results can differ from those estimates.

Segments

Reporting segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. All of the Company’s 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. The Company views its operations and manages its business as one operating and reporting segment.

Revenue Recognition

Revenue is generally recognized when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
Net service fees, as reported in the consolidated statement of operations and comprehensive income (loss), consist of: (a) RCM service fees and (b) professional service fees earned on a fixed fee, transactional fee, or time and materials basis. The Company’s primary source of revenue is RCM service fees. RCM service fees are primarily contingent, but along with fixed fees are generally viewed as one deliverable. To the extent that certain RCM service fees are fixed and not subject to refund, adjustment or concession, these fees are recognized into revenue on a straight-line basis over the term of the contract.
RCM service fees that are contingent in nature are recognized as revenue once all the criteria for revenue recognition are met, which is generally at the end of a contract or other contractual agreement events. Revenue is recognized for RCM service fees upon the contract reaching the end of its stated term (such that the contractual relationship will not continue in its current form) to the extent that: (i) cash has been received for invoiced fees; and (ii) there are no disputes at the conclusion of the term of the contract.
If fees or services are disputed by a customer at the end of a contract, a settlement agreement entered into with the customer triggers revenue recognition. An “other contractual agreement event” occurs when a renewal or amendment to an existing contract is executed in which the parties reach agreement on prior fees. Revenue is recognized up to the amount covered by such agreements.
RCM service fees consist of the following contingent fees: (i) Net Operating Fees and (ii) Incentive Fees.
Net Operating Fees
The Company generates net operating fees to the extent the Company is able to assist customers in reducing the cost of their revenue cycle operations. The Company's delivery model leverages the customers' RCM personnel. The Company’s net operating fees consist of:
i) gross base fees invoiced to customers; less
ii) corresponding costs of customers’ revenue cycle operations which the Company pays pursuant to its RCM agreements, including salaries and benefits for the customers' RCM personnel, and related third-party vendor costs; less
iii) any cost savings the Company shares with customers.
Net operating fees are reported as deferred customer billings until the Company recognizes revenue for a customer contract at the end of a contract or reaches an "other contractual agreement event". The amount of unpaid costs of customers’ revenue cycle operations and shared cost savings are reported as accrued service costs within customer liabilities in the consolidated balance sheets.
Incentive Fees
The Company generates revenue in the form of performance-based fees when the Company improves the customers’ revenue yield. These performance metrics vary by customer contract. However, certain contracts contain a contract-to-date performance metric that is not resolved until the end of the term of the contract. Incentive fees are reported as deferred customer billings only upon cash receipt and until the Company recognizes revenue for a customer at the end of a contract or other contractual agreement event. In some cases, when a customer agreement is extended under an evergreen provision or other amendment, fees may not be considered finalized until the end of the customer relationship. Incentive fees associated with performance metrics which are not resolved until the end of the term of the contract or an “other contractual agreement event” are recorded in deferred customer billings until we recognize revenue. Incentive fees are considered contingent fees.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
Customer Liabilities
Base fees and fixed fees are billed on a monthly or quarterly basis and incentive fees are billed to customers on a quarterly basis. Generally, base fees are billed in advance of each service period. Customer liabilities include: (i) accrued service costs (amounts due and accrued for cost reimbursements net of amounts receivable for base fees from the corresponding customer), (ii) deferred customer billings (net operating fees invoiced or accrued and incentive fees collected that have not met all revenue recognition criteria), (iii) customer deposits (consisting of net operating fees under the Company's RCM contracts that are paid prior to the service period and amounts due as a refund to our customers on incentive fees) and, (iv) deferred revenue (fixed fees amortized to revenue over the service period or fixed or determinable fees that have not met all other revenue recognition criteria). Deferred customer billings are classified as current based on the customer contract end dates or other termination events that fall within twelve months of the balance sheet dates. Accrued service cost, customer deposits, and deferred revenue are classified as current or non-current based on the anticipated period in which the liabilities are expected to be settled or the revenue is expected to be recognized.

	December 31,	
	2014	2013
Deferred customer billings, current	$132,063	$232,876
Accrued service costs, current	68,077	100,833
Customer deposits, current	19,675	22,817
Deferred revenue, current	183	168
Current portion of customer liabilities	219,998	356,694
Deferred customer billings, non-current	317,065	192,826
Customer deposits, non-current	—	2,566
Non current portion of customer liabilities	317,065	195,392
Total customer liabilities	$537,063	$552,086

Consulting Fees, Transaction Fees and Contingent Service Fees
The Company also generates revenue from fixed-fee arrangements, transactional service contracts and contingency-fee service contracts. Provided all other criteria of revenue recognition are met under Accounting Standards Codification ("ASC") 605, Revenue Recognition, revenue under these arrangements is recognized as services are performed, deliverables are provided and related contingencies are removed. All related direct costs are recorded as period costs when incurred. These consulting fees, transactional fees and contingent service fees are generated from services such as physician advisory services, population health solutions, and other related consulting services.
Cost of Services
Costs associated with generating the Company's net services revenue, including the cost of operating its shared services centers, are expensed as incurred. Cost of services consist of (i) infused management and technology costs, (ii) shared services costs and (iii) other costs to perform physician advisory services and population health solutions. Infused management and technology costs consist primarily of wages, bonuses, benefits, share-based compensation, travel and other costs associated with deploying the Company's employees at customer sites to help manage the Company's customers' revenue cycle operations. The other significant portion of these expenses is an

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
allocation of the costs associated with maintaining, improving, and deploying our integrated proprietary technology suite. Shared services costs relate to the Company's shared services centers in the U.S. and India that perform patient scheduling and pre-registration, medical transcription, cash posting, reconciliation of payments to billing records, patient follow-up, and Medicaid eligibility determination for our customers. The Company incurs expenses related to salaries and benefits for employees in its shared services centers and non-payroll costs associated with operating its shared services centers. Other expenses consist of costs related to managing physician advisory services, population health solutions, and other services. These expenses consist primarily of wages, bonuses, benefits, share-based compensation, and facilities costs.

Comprehensive Income (Loss)

Comprehensive income (loss) is the net income (loss) of the Company combined with other changes in stockholders' equity (deficit) not involving ownership interest changes. For the Company, such changes are foreign currency translation adjustments.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The following table summarizes assets that are measured at fair value and are categorized using the fair value hierarchy (in thousands).

	December 31,	
	2014	2013
Level 1 assets –		
Money market funds with maturities of less than 90 days	$137,802	$217,065

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):

	December 31,		
	2014	2013	2012
Beginning balance	$740	$183	$95
Provision (recovery)	(430)	634	183
Write-offs	4	(77)	(95)
Ending balance	$314	$740	$183

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
Property, Equipment and Software
Property and equipment are stated at cost, and related depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets.
For many internally developed software projects, the Company adheres to a development methodology where the process moves quickly between planning, design, development, testing, and then moves back to planning before the testing is complete. As such, there are short development cycles and rapid production changes for these software projects. As a result, the qualifying activities to capitalize development costs have a short timeframe and therefore, the Company expenses its internal development labor costs as incurred for these projects. For projects that do not meet the criteria described above, the Company capitalizes qualifying internal costs in accordance with GAAP. The Company capitalizes qualifying third-party costs and hardware and software costs related to the Company's software development activities in accordance with GAAP. The Company amortizes the capitalized software development costs over their estimated life on a straight-line basis.
The major classifications of property, equipment and software and their expected useful lives are as follows:

Computers and other equipment	3 years
Leasehold improvements	Shorter of 10 years or lease term
Office furniture	5 years
Software	3 to 5 years

Goodwill
Goodwill represents the excess purchase price over the net assets of a business the Company acquired in May 2006. Goodwill is not subject to amortization but is subject to impairment testing at least annually. The Company's annual impairment assessment date is October 1. The Company has $0.2 million and $0.5 million of goodwill that is included in "Goodwill and other assets, net" in the accompanying consolidated balance sheets at 2014 and 2013, respectively. The Company has the option to assess goodwill impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is required to perform a two-step goodwill impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. There was no impairment of goodwill during the years ended December 31, 2014, 2013 and 2012.
Impairment of Long-Lived Assets
Property, equipment, software and other acquired intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset or asset group be reviewed for possible impairment, the Company first compares undiscounted cash flows expected to be generated by each asset or asset group to its carrying value. If the

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent that the carrying value exceeds the fair value. There was no impairment of property, equipment, software or other acquired intangible assets for the years ended December 31, 2014, 2013 and 2012.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using current tax laws and enacted tax rates in effect for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance for deferred tax assets if, based upon the weight of all available evidence, both positive and negative, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the tax authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Interest and penalties relating to income taxes are recognized in our income tax provision in the statements of consolidated operations.

Fair Value of Financial Instruments

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value (i) defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date, (ii) establishes a framework for measuring fair value, (iii) establishes a hierarchy of fair value measurements based upon the ability to observe inputs used to value assets and liabilities, (iv) requires consideration of nonperformance risk, and (v) expands disclosures about the methods used to measure fair value. The accounting standard establishes a three-level hierarchy of measurements based upon the reliability of observable and unobservable inputs used to arrive at fair value. Observable inputs are independent market data, while unobservable inputs reflect the Company's assumptions about valuation. The three levels of the hierarchy are defined as follows:

- 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 carrying amounts of the Company's financial instruments, which include financial assets such as cash and cash equivalents, restricted cash, accounts receivable, amounts due from related party and certain other current assets, as well as financial liabilities such as accounts payable, accrued service costs, accrued compensation and benefits and certain other accrued expenses, approximate their fair values, due to the short-term nature of these

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
instruments. The Company's financial assets which are required to be measured at fair value on a recurring basis consist of cash equivalents, which are highly liquid money market funds and accordingly are classified as Level 1 assets in the fair value hierarchy. The Company does not have any financial liabilities that are required to be measured at fair value on a recurring basis.

Legal and Other Contingencies

In the normal course of business, the Company is subject to regulatory investigations or legal proceedings, as well as demands, claims and threatened litigation. The Company records an estimated loss for any claim, lawsuit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of the probability and whether the loss can be reasonably estimated. Actual expenses could differ from these estimates.

Foreign Currency Translation and Transaction Gains/(Losses)

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at average exchange rates during the year which approximate the rates in effect at the transaction dates. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss).

The Company's foreign currency transaction gains and losses are included in selling, general and administrative in the accompanying consolidated statements of operations and comprehensive income (loss).

Share-Based Compensation Expense

The Company determines the expense for all employee share-based compensation awards by estimating their fair value and recognizing that value as an expense, on a ratable basis, in the consolidated financial statements over the requisite service period in which the employees earn the awards. The fair value of performance and service condition stock options is calculated using the Black Scholes option pricing model and, for market condition stock options, the fair value is estimated using Monte Carlo simulations.

To determine the fair value of a share-based award using the Black-Scholes option pricing model, the Company makes assumptions regarding the risk-free interest rate, expected future volatility, expected life of the award, and expected forfeitures of the awards. These inputs are subjective and generally require significant analysis and judgment to develop. The Company aggregates all employees into one pool based on the grant date for valuation purposes. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company estimates the expected volatility of the share price by reviewing the historical volatility levels of its 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 then projecting this information toward its future expected volatility. The Company exercises judgment in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies. The Company calculates the expected term in years for each stock option using a simplified method based on the average of each option's vesting term and original contractual term. The Company applies an estimated forfeiture rate derived from its historical data and estimates of the likely future actions of option holders when recognizing the share-based compensation expense of the options.

To determine the fair value of a share-based award using Monte Carlo simulations, the Company makes assumptions regarding the risk-free interest rate, expected future volatility, expected dividend yield and performance period. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company estimates the expected volatility of the share price by reviewing the historical volatility levels of its common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
development or size and then projecting this information toward its future expected volatility. Dividend yield is determined based on the Company’s future plans to pay dividends. The Company had no plans to do so at December 31, 2014. The Company calculates the performance period based on the specific market condition to be achieved and derived from historical data and estimates of future performance.

The Company recognizes compensation expense, net of forfeitures, using a straight-line method over the applicable service or performance period. During each quarter, the share-based compensation expense is adjusted to reflect all expense for options that vested during the period; however, compensation expense already recognized is not adjusted if market conditions are not met.

The Company accounts for stock options issued to non-employees based on their estimated fair value determined using the Black-Scholes option pricing model. The stock options issued to non-employees vest over the arrangement period. The fair value of the equity awards granted to non-employees is remeasured on each balance sheet date until the awards vest, and the related expense is adjusted based on the resulting changes in fair value, if any. The non-employee share-based compensation expense is recognized over the performance period which is the vesting period. Upon vesting, the performance of the non-employee is deemed complete and the vested awards are not remeasured subsequently.

The fair value of modifications to share-based awards is generally estimated using the Black-Scholes option pricing model. If a share-based compensation award is modified after the grant date, incremental compensation expense is recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Incremental compensation expense for vested awards is recognized immediately. For unvested awards, the sum of the incremental compensation expense and the remaining unrecognized compensation expense for the original award on the modification date is recognized over the modified service period.

Treasury Stock

The Company records treasury stock at the cost to acquire such shares and includes treasury stock as a component of stockholders’ equity (deficit).

Earnings (Loss) Per Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. The diluted net income (loss) per common share computation includes the effect, if any, of common shares that would be issuable upon the exercise of outstanding stock options, unvested restricted stock, reduced by the number of common shares which are assumed to be purchased by the Company with the resulting proceeds from the exercise of stock options, at the average market price during the year, when such amounts are dilutive to the net income (loss) per share calculation.

Recently Adopted Accounting Standards and Disclosures

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies. Unless otherwise discussed, the Company’s management believes that the impact of recently issued accounting pronouncements that are not yet effective will not have a material impact on the Company’s consolidated financial position or results of operations upon adoption.

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires reporting entities to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, reporting entities are required to present, either on the face of the

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)
statement of income and comprehensive income or in the footnotes to the financial statements, significant amounts reclassified from accumulated other comprehensive income by statements of income and comprehensive income line item. This ASC does not change current requirements for reporting net income or other comprehensive income in financial statements. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company adopted the provisions of the ASU in 2013. The adoption of the ASU did not have an impact on the Company’s consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 provides guidance for presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit. ASU 2013-11 provides that a benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2013, and will be effective for the Company’s fiscal year beginning January 1, 2014. The adoption of the ASU did not have an impact on the Company’s consolidated financial statements.

Newly Issued Accounting Standards and Disclosures

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU 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. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application not permitted. In April 2015, the FASB proposed deferring the standard effective date by one year. The Company has not yet determined the potential effects of the new standard on the consolidated financial statements, if any.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 3. Property, Equipment, and Software

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

	December 31, 2014	2013
Computer and other equipment	$17,701	$16,630
Leasehold improvements	12,491	13,346
Software	12,398	9,589
Office furniture	3,152	3,258
Property and equipment and software, gross	45,742	42,823
Less accumulated depreciation and amortization	(31,148)	(26,548)
Property and equipment and software, net	$14,594	$16,275

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

	For the Year Ended December 31, 2014	2013	2012
Cost of services	$4,603	$4,697	$3,957
Selling, general and administrative	1,444	2,126	2,398
Total depreciation and amortization	$6,047	$6,823	$6,355

Note 4. Stockholders' Equity (Deficit)

Preferred Stock

The Company has 5,000,000 shares of authorized preferred stock with a par value of $0.01 each. The preferred stock may be issued from time to time in one or more series. The board of directors is authorized to determine the rights, preferences, privileges and restrictions of the Company's authorized but unissued shares of preferred stock. As of December 31, 2014, 2013, and 2012, the Company does not have any shares of preferred stock outstanding.

Common Stock

Each outstanding share of common stock is entitled to one vote per share on all matters submitted to a vote by shareholders. Subject to the rights of any preferred stock which may from time to time be outstanding, the holders of outstanding shares of common stock are entitled to receive dividends and, upon liquidation or dissolution, are entitled to receive pro rata all assets legally available for distribution to stockholders. No dividends were declared or paid on the common stock during 2014, 2013, and 2012.

Treasury Stock

In September 2012, the board of directors authorized a share repurchase plan allowing the Company to repurchase up to $50.0 million of its outstanding shares of common stock. For the year ended December 31, 2012, the Company repurchased 4,307,362 shares of its common stock under this share repurchase plan at an average price of $11.61 per share for a total of $50.0 million; this amount was recorded as a reduction of stockholders' equity (deficit). As of December 31, 2012, the share repurchase plan was concluded.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 4. Stockholders' Equity (Deficit) (continued)

On November 13, 2013, the Company's board of directors authorized another repurchase of up to $50.0 million of the Company's common stock in the open market or in privately negotiated transactions following the Restatement, as defined in Note 7, Restatement and Other Costs. The timing and amount of any shares repurchased will be determined by the Company based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time at the sole discretion of the board of directors. Any repurchased shares will be available for use in connection with the Company's stock plans and for other corporate purposes. The Company currently intends to fund the repurchases from cash on hand. No shares of common stock had been repurchased under this plan as of the date at which these consolidated financial statements were issued.

Treasury stock also includes repurchases of Company stock related to employees' tax withholding upon vesting of restricted shares. See Note 5, Share-Based Compensation.

Note 5. Share-Based Compensation

The Company maintains two stock incentive plans: the 2006 Amended and Restated Stock Option Plan (the "2006 Plan") and the 2010 Stock Incentive Plan (the "2010 Plan" and, together with the 2006 Plan, the "Plans"). Under the 2010 Plan the Company could issue (up to a maximum of 24,374,756 shares) any shares that remained available for issuance under the 2006 Plan as of the date of the IPO and any shares subject to awards that were outstanding under the 2006 Plan as of the date of the IPO that expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company without the issuance of shares thereunder. The Company will not make any further grants under the 2006 Plan. The 2010 Plan provides for the grant of incentive stock options, non-statutory stock options, Restricted Stock Awards, ("RSAs") and other share-based awards. As of December 31, 2014, an aggregate of 13,548,081 shares were outstanding as either options or RSAs under the Plans, and 5,262,904 shares were available for future grants of awards under the 2010 Plan. To the extent that previously granted awards under the 2006 Plan or 2010 Plan expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company, the number of shares available for future awards under the 2010 Plan will increase.

Under the terms of both plans, all awards will expire if they are not exercised within ten years of their grant date. Substantially all employee options and RSAs vest over four years at a rate of 25% per year on each grant date anniversary. Substantially all non-employee options vest over either one year or four years (at a rate of 25% per year). Options granted under the 2006 Plan could be exercised immediately upon grant, but upon exercise the shares issued were subject to the same vesting and repurchase provisions that applied before the exercise. There were no such exercises during the years ended December 31, 2014, 2013, and 2012. Options granted under the 2010 Plan cannot be exercised prior to vesting.

In 2014 and 2013, the Company granted service-based, non-qualified options to purchase 3,400,000 and 4,703,801 shares of common stock and awarded 1,000,000 and 400,000 shares of restricted stock, respectively, to key employees pursuant to NYSE inducement grant rules, of which 7,103,801 and 4,703,801of the stock options and 1,749,988 and 349,996 of the shares of restricted stock were outstanding as of December 31, 2014 and 2013, respectively.

Also in 2014, pursuant to NYSE inducement grant rules, the Company granted a market-based award of 500,000 shares of restricted stock to the Chief Executive Officer. This RSA vests only when the average closing price of the Company's stock price equals or exceeds twice the grant date stock price.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 5. Share-Based Compensation (continued)
The Company uses the Black-Scholes option pricing model to estimate the fair value of its service-based options as of its grant date. The following table sets forth the significant assumptions used in the Black-Scholes option pricing model and the calculation of share-based compensation cost during 2014, 2013, and 2012:

	Year Ended December 31,		
	2014	2013	2012
Expected dividend yield	—	—	—
Risk-free interest rate	1.9% to 2.2%	0.9% to 2.1%	0.8% to 1.4%
Expected volatility	50%	50%	50%
Expected term (in years)	6.25	5.82-8.82	6.25
Forfeitures	5.68% annually	5.68% annually	4.42% annually

The Company uses Monte Carlo simulations to estimate the fair value of its market condition RSAs as of its grant date with the following: dividend yield of 0 percent; volatility of 50 percent; risk free interest rate of 2.20 percent and performance period of 7.5 years.
Total share-based compensation costs that have been included in the Company’s consolidated statements of operations were as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Share-Based Compensation Expense Allocation Details:			
Cost of services	$6,668	$10,740	$11,625
Selling, general and administrative	13,503	13,061	13,673
Restatement and other costs	8,761	1,224	—
Total share-based compensation expense	$28,932	$25,025	$25,298

There was $42.8 million, $43.3 million, and $53.5 million of total, unrecognized share-based compensation expense related to stock options and RSAs granted under the plans, which the Company expects to recognize over a weighted-average period of 3.2, 2.8 and 2.7 years as of December 31, 2014, 2013, and 2012, respectively. Refer to the consolidated statements of stockholders’ equity (deficit) for the tax benefits realized for the tax deductions from stock option exercises.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 5. Share-Based Compensation (continued)
Stock options
The following table sets forth a summary of all employee and non-employee option activity under all plans and inducement grants for the years ended December 31, 2014, 2013, and 2012:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2012	15,362,749	$14.96	7.7	$138,632
Granted	6,470,949	12.49		
Exercised	(1,256,377)	5.89		
Canceled	(546,100)	15.31		
Forfeited	(2,324,082)	21.11		
Outstanding at December 31, 2012	17,707,139	13.88	7.6	25,957
Granted	8,345,437	10.09		
Exercised	(9,400)	4.34		
Canceled	(1,057,052)	17.60		
Forfeited	(4,445,851)	15.64		
Outstanding at December 31, 2013	20,540,273	11.77	7.4	15,673
Granted	4,406,856	8.78		
Exercised	—	—		
Canceled	(1,494,219)	13.41		
Forfeited	(3,528,505)	12.14		
Outstanding at December 31, 2014	19,924,405	10.91	6.9	9,444
Outstanding, vested and exercisable at December 31, 2012	6,915,086	$11.47	6.0	$20,761
Outstanding, vested and exercisable at December 31, 2013	9,605,505	$11.89	5.9	$15,096
Outstanding, vested and exercisable at December 31, 2014	11,879,209	$11.73	5.6	$9,444

The weighted-average grant date fair value of options granted in the years ended December 31, 2014, 2013, and 2012 was $4.40, $5.19 and $6.05 per share, respectively. The total intrinsic value of the options exercised in the years ended December 31, 2013 and 2012 was $0.1 million and $15.4 million, respectively. No options were exercised in the year ended December 31, 2014. The total fair value of options vested in the years ended December 31, 2014, 2013, and 2012 was $22.9 million, $27.1 million and $25.4 million, respectively.
Stock option activity for non-employee consultants
Included in the table and disclosures above are options to purchase 109,887, 265,517, and 403,712 shares held by non-employees as of December 31, 2014, 2013, and 2012, respectively. These options had a weighted average exercise price of $17.12, $20.05, and $21.88 at December 31, 2014, 2013, and 2012, respectively.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 5. Share-Based Compensation (continued)
Restricted stock awards
In the third quarter of 2011, the Company began to grant RSAs to its employees. A summary of the activity during the years ended December 31, 2014, 2013, and 2012 is shown below:

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2012	159,080	$25.90	9.7
Granted	50,000	11.16	
Vested	(48,860)	26.14	
Forfeited	—	—	
Outstanding and Unvested at December 31, 2012	160,220	$21.23	9.0
Granted	508,303	11.46	
Vested	(50,004)	11.47	
Forfeited	(160,220)	21.23	
Outstanding and Unvested at December 31, 2013	458,299	$11.45	9.4
Granted	2,365,000	8.39	
Vested	(127,084)	11.46	
Forfeited	(218,750)	9.40	
Outstanding and Unvested at December 31, 2014	2,477,465	$8.71	9.3

The total fair value of RSAs vested in the years ended December 31, 2014, 2013, and 2012 was $1.5 million, $0.6 million and $1.3 million, respectively. The Company’s RSA agreements allow employees to deliver to the Company shares of 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 years ended December 31, 2014, 2013, and 2012, employees delivered to the Company 45,142, 16,623 and 15,321 shares of stock, respectively, which the Company recorded at a cost of approximately $0.4 million, $0.2 million and $0.2 million, respectively. As of December 31, 2014, the Company held 91,890 shares of surrendered common stock in treasury related to the vesting of RSAs.
Forfeited and canceled RSAs are added to treasury stock. For the years ended December 31, 2014 and 2013, 218,750 and 160,220 shares were added to treasury stock due to canceled RSAs. No shares were canceled for the year ended December 31, 2012.
Modifications of share-based awards
As described in Note 7, 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 was suspended. As a result, individuals have not been permitted to exercise vested options until such time as the S-8 is effective. During the second quarter of 2013, the Company modified the terms of the share-based awards for those individuals who were involuntarily terminated in connection with the 2013 restructuring plan as described in Note 8. These modifications allowed for the extension of the exercise period for vested options from 60 days following each affected employee's respective termination date to the later of 60 days following the filing of the Company's 2012 consolidated financial statements with the SEC or December 31, 2013. During the quarter ended June 30, 2013, 13 employees were terminated under the 2013 restructuring plan, resulting in an increase in share-based compensation expense of $1.1 million for the year ended December 31, 2013.

F-20

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 5. Share-Based Compensation (continued)
During the second quarter of 2014, the Company modified the terms of 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 Company's Registration Statement on 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 year ended December 31, 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 Company's Registration Statement on Form S-8 has been effective for 60 consecutive days. This modification resulted in a net increase of share-based compensation expense for the year ended December 31, 2014 of $5.6 million.
During the second quarter of 2013, the Company modified the terms of an award granted to Mary Tolan, the Company's former chief executive officer, in connection with her transition to the role of the Chairman of the Board of Directors of the Company. This modification allowed for the extension of the exercise period for options vested as of the date of the modification from 60 days following the termination of employment to the expiration of the original award (ten years from the grant date). This modification resulted in a net increase in share-based compensation expense of $0.1 million and $1.5 million for the years ended December 31, 2014 and 2013, respectively.
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 year ended, December 31, 2014, the Company incurred $0.9 million of share-based compensation expense related to this grant.

Additionally, as part of the COO's retention agreement, the Company modified the terms of a stock option granted to the COO at the commencement of his employment. This modification would be triggered upon termination of employment by the Company without cause or by the COO for good reason and if triggered, the vested portion of the stock option would remain exercisable for a period of time equal to 60 days plus the number of days of service with the Company, but not longer than two years, or until the stock option otherwise expires, if earlier. This modification resulted in a net increase in share-based compensation expense of $0.2 million for year ended December 31, 2014.

Lastly, as all employees were restricted from exercising vested options during the year ended December 31, 2014, the Company settled share-based awards in cash with three employees who had options that expired during the year. This modification resulted in an increase in share-based compensation of $0.9 million for the year ended December 31, 2014.

Note 6. Retirement Plan
The Company maintains a 401(k) retirement plan that is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. In general, all employees are eligible to participate. The 401(k) plan includes a salary deferral arrangement pursuant to which participants may elect to reduce their current compensation by up to the statutorily prescribed limit, equal to $17,500, $17,500 and $17,000 in 2014, 2013, and 2012, respectively, and have the amount of the reduction contributed to the 401(k) plan. The Company currently matches employee contributions up to 50% of the first 3% of base compensation that a participant contributes to the 401(k) plan. In 2014, 2013, and 2012, director-level and above employees were excluded from the matching contribution feature of the plan. For the years ended December 31, 2014, 2013, and 2012, total Company contributions to the plan were $0.5 million, $0.6 million, and $0.6 million, respectively.
Note 7. Restatement and Other
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. In 2014 and 2013, the Company incurred $57.3 million and $23.1 million in Restatement costs, respectively. These legal, accounting and consulting costs were incurred to complete the Annual Report on Form 10-K for the years ended December 31, 2013, 2012 and 2011. In 2013 and 2012, the Company incurred costs for litigation, primarily related to the lawsuit filed against the Company in January 2012 by the Minnesota Attorney General that is described in Note 10, Commitments and Contingencies, of $3.3 million and $3.7 million, respectively. In 2013, the Company accrued $2.3 million for litigation settlement to former shareholders of SDI Acquisition, Inc. (a wholly owned subsidiary of Company). For the year ended December 31, 2014, the Company incurred $6.5 million in costs associated with its 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"). In addition, the Company incurred other non-recurring costs in 2014 of $0.9 million in additional employment tax expense relating to prior years.
Reorganization
In 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. Pursuant to the plan, the Company incurred $3.9 million for severance and other costs during the year ended December 31, 2013. In addition, the Company incurred $1.2 million non-cash expense related to share-based compensation for modification of existing option agreements for affected employees.
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, the Company incurred $22.1 million in pretax restructuring charges during the year ended December 31, 2014, consisting of $17.1 million in severance and employee benefits, including $7.9 million of non-cash expense related to share-based compensation for modification of existing options for affected employees and $5.0 million in facilities and other related expenses.
The Company has included $3.3 million and $0.2 million in accrued compensation and benefits and other accrued expenses in the accompanying consolidated balance sheet at December 31, 2014, respectively, and has included $1.1 million in accrued compensation and benefits at December 31, 2013.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 7. Restatement and Other (continued)
The Company's reorganization activity was as follows (in thousands):

	Severance and Employee Benefits	Facilities and Other Costs	Total
Reorganization liability at January 1, 2013	$—	$—	$—
Restructuring charges	5,173	—	5,173
Cash payments	(2,806)	—	(2,806)
Non-cash charges	(1,224)	—	(1,224)
Reorganization liability at December 31, 2013	$1,143	$—	$1,143
Restructuring charges	17,108	5,010	22,118
Cash payments	(7,050)	(3,482)	(10,532)
Non-cash charges	$(7,905)	$(1,370)	$(9,275)
Reorganization liability at December 31, 2014	$3,296	$158	$3,454

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 8. Income Taxes

The domestic and foreign components of income (loss) before income taxes consist of the following (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Domestic	$(130,945)	$202,222	$(189,791)
Foreign	2,594	2,210	2,056
Total income (loss) before income taxes	$(128,351)	$204,432	$(187,735)

For the years ended December 31, 2014, 2013, and 2012, the Company's current and deferred income tax expense (benefit) attributable to income (loss) from operations are as follows (in thousands):

	Current	Deferred	Total
Year Ended December 31, 2012			
U.S. Federal	$6,924	$(72,244)	$(65,320)
State & Local	1,717	(4,666)	(2,949)
Foreign	247	27	274
	$8,888	$(76,883)	$(67,995)
Year Ended December 31, 2013			
U.S. Federal	$(5,060)	$75,737	$70,677
State & Local	(330)	3,635	3,305
Foreign	367	—	367
	$(5,023)	$79,372	74,349
Year Ended December 31, 2014			
U.S. Federal	$(627)	$(42,240)	$(42,867)
State & Local	46	(6,363)	(6,317)
Foreign	1,025	(572)	453
	$444	$(49,175)	$(48,731)

Reconciliation of the difference between the actual tax rate and the statutory U.S. federal income tax rate is as follows:

	Year Ended December 31,		
	2014	2013	2012
Federal statutory tax rate	35 %	35 %	35 %
Increase in income tax rate resulting from:			
State and local income taxes, net of federal tax benefits	3 %	1 %	1 %
Actual tax rate	38 %	36 %	36 %

In the three month period ended March 31, 2014, 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 year ended December 31, 2014 by approximately $2.4 million. The Company has determined the amount is immaterial for the quarterly and annual periods in 2013 and the year ended December 31, 2014.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 8. Income Taxes (continued)
The following table sets forth the Company's net deferred tax assets as of December 31, 2014 and 2013 (in thousands):

	As of December 31,	
	2014	2013
Deferred Tax assets:		
Deferred customer billings	181,567	181,932
Net operating loss carryforwards	41,654	5,295
Share-based compensation	33,895	27,257
Accrued bonus	3,791	3,269
Other reserves	1,019	—
Alternative minimum tax	1,185	—
Other	1,235	462
R&D credit	711	665
Charitable contributions	514	225
Stock warrants	127	154
Total gross deferred tax assets	265,698	219,259
Less valuation allowance	(299)	(268)
Net deferred tax assets	265,399	218,991
Deferred tax liabilities:		
Goodwill and fixed assets	(817)	(983)
Total deferred tax liability	(817)	(983)
Net deferred tax asset	$264,582	$218,008

At December 31, 2014, the Company has cumulative U.S. federal net operating loss carryforwards of approximately $105.8 million which are available to offset U.S. federal taxable income in future periods through 2034.
At December 31, 2014, the Company has cumulative state net operating carryforwards of approximately $111.6 million which are available to offset state taxable income in future periods through 2034. A valuation allowance is required to be established when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The guidance on accounting for income taxes provides important factors in determining whether a deferred tax asset will be realized, including whether there has been sufficient taxable income in recent years and whether sufficient income can reasonably be expected in future years in order to utilize the deferred tax asset.
Consideration is given to the weight of all available evidence, both positive and negative. Generally, a cumulative loss in recent years is negative evidence in determining the need for a deferred tax asset valuation allowance. However, the recent cumulative losses in book income are primarily the result of a delay in revenue recognition on contracts that have been in place for a number of years. Under the Restatement, revenue is being deferred by the Company until a future event occurs and the revenue becomes fixed, per the terms of each contract. The Company believes that the deferred revenue from contracts that the Company has previously entered into will be recognized in the future. The majority of the deferred revenue amounts have already been reported on income tax returns filed in accordance with a previously established and approved method of accounting for federal and state income tax reporting. The significant positive evidence related to the projected realization of the deferred customer billings from existing contracts and projected taxable income outweighs the negative evidence from the cumulative

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 8. Income Taxes (continued)
losses incurred in recent years based on the Restatement. Accordingly, the Company believes that it is more likely than not that the remaining deferred tax assets will be realized.
The Company has recorded valuation allowances at December 31, 2014 and 2013 of $0.3 million and $0.3 million, respectively based on our assessment that it is more likely than not that a portion of the Company’s separate state income tax net operating loss will not be realized.
The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries that arose in 2014 or 2013 because the Company considers these earnings to be indefinitely reinvested outside of the United States. As of December 31, 2014 and 2013, the undistributed earnings of these subsidiaries were $6.8 million and $5.0 million, respectively. It is not practicable to estimate the amount of recognized deferred tax liabilities, if any, for these undistributed foreign earnings.
The 2014, 2013 and 2012 current tax provision includes $1.0 million, $0.4 million, and $0.3 million, respectively, for income taxes arising from the pre-tax income of the Company’s India subsidiaries. The tax provisions are net of the impact of a tax holiday in India. The Company’s benefits from this tax holiday was $0.5 million for the year ended December 31, 2014 and $0.4 million for each of the years ended December 31, 2013 and 2012. The majority of these benefits are set to expire after the year ending December 31, 2018.
The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company’s unrecognized tax benefits as of December 31, 2014, 2013, and 2012 totaled $1.1 million, $1.3 million and $2.4 million, respectively.
The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

		Tax Benefit	
Unrecognized tax benefits as of	January 1, 2012	$2,313	
Increases in positions taken in a current period		67	
Increases in positions taken in prior period		31	
Decreases due to lapse of statute of limitations		—	
Unrecognized tax benefits as of	December 31, 2012	2,411	
Increases in positions taken in a current period		67	
Increases in positions taken in prior period		—	
Decreases due to lapse of statute of limitations		(1,176	)
Unrecognized tax benefits as of	December 31, 2013	1,302	
Increases in positions taken in a current period		66	
Increases in position taken in prior period		94	
Decreases in positions taken in prior period		(51	)
Decreases due to lapse of statute of limitations		(313	)
Unrecognized tax benefits as of	December 31, 2014	$1,098	

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 8. Income Taxes (continued)

As of December 31, 2014, approximately $1.1 million of the total gross unrecognized tax benefits represented the amount that, if recognized, would result in a reduction of the effective income tax rate in future periods. The Company recognizes interest and penalties related to income tax matters as part of income tax expense. The Company recorded adjustments to interest and potential penalties related to these unrecognized tax benefits during 2014, and in total, as of December 31, 2014, the Company has recorded a liability for interest and potential penalties of $0.8 million. The Company anticipates changes to the reserves within the next 12 months to be primarily related to interest. The Company believes it has sufficient accruals for contingent tax liabilities.

In connection with tax return examinations, contingencies can arise that generally result from different interpretations of tax laws and regulations as they pertain to the amount, timing or inclusion of revenues and expenses in taxable income, or the ability to utilize tax credits to reduce income taxes payable. While it is probable, based on the potential outcome of the Company’s Federal and State tax examinations or the expiration of the statute of limitations for specific jurisdictions, that the liability for unrecognized tax benefits may increase or decrease within the next twelve months, the Company does not expect any such change would have a material effect on our financial condition, results of operations or cash flow.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. U.S. federal income tax returns for 2013, 2012 and 2011 are currently open for examination. The 2013, 2012 and 2011 U.S. federal income tax returns are currently under examination. State jurisdictions vary for open tax years. The statute of limitations for most states ranges from 3 to 6 years. Local tax authorities have completed their income tax examinations of the Company’s subsidiary in India for fiscal years 2009 and 2010. The proposed adjustments in India have been appealed, and the Company believes the ultimate outcome of these appeals will not result in a material adjustment to its tax liability.

Pursuant to the acquisition of a business in May 2006, the sellers, certain of which are employees of the Company, are obligated to indemnify the Company for federal and state income taxes, including 50% of any interest and penalties incurred, related to periods up to and including the date of the acquisition. The potential amount due to the Company related to this indemnity was $1.3 million, $1.3 million and $1.2 million as of December 31, 2014, 2013, and 2012, respectively. The amount due from related party is secured by the fair value of shares and cost held by the Company in escrow. The cost and fair value of these shares was $0.8 million, $1.0 million and $1.1 million at December 31, 2014, 2013, and 2012, respectively. Given that the fair value of the shares was less than the amount due from related party in 2014 and 2013, the Company recorded a reserve of $0.5 million and $0.3 million, respectively, to reflect the difference between the fair value of the shares and the receivable they securitize. No reserve was required at December 31, 2012. The amounts due from related party in the consolidated balance sheets reflect the net realizable value of the receivable. The Company intends to keep these shares in escrow until the related tax matters are fully resolved and any indemnification obligations in connection therewith have been satisfied.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 9. Earnings (Loss) Per Share
Basic and diluted net income (loss) per common share are calculated as follows (in thousands, except share and per share data):

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	$(79,620)	$130,083	$(119,740)
Basic weighted-average common shares	95,760,762	95,687,940	98,602,099
Add: Effect of dilutive securities	—	1,157,724	—
Diluted weighted-average common shares	95,760,762	96,845,664	98,602,099
Net income (loss) per common share (basic)	$(0.83)	$1.36	$(1.21)
Net income (loss) per common share (diluted)	$(0.83)	$1.34	$(1.21)

Stock options totaling 18,450,699 were not included in the computation of diluted income per share for the year ended December 31, 2013 as the options were anti-dilutive. Due to the net loss, stock options and RSAs totaling 22,401,870 and 17,867,359 were not included in the computation of diluted income (loss) per share for the years ended December 31, 2014 and 2012, respectively.
Note 10. Commitments and Contingencies
Operating Leases
The Company rents office space and equipment under operating leases, primarily for its Chicago corporate office, U.S. shared services centers and India operations. Office space lease terms range from 1 to 12 years, whereas equipment lease terms range from 1 to 3 years. The Company’s leases contain various rent holidays and rent escalation clauses and entitlements for tenant improvement allowances. Lease payments are amortized to expense on a straight-line basis over the lease term. For a description of the Company’s leased properties refer to “Part I - Item 2 - Properties” of this Annual Report on Form 10-K.
Total rent expense under all operating leases was $3.9 million, $3.8 million and $3.6 million for the years ended December 31, 2014, 2013, and 2012, respectively.
The aggregate future minimum rental commitments under all noncancelable operating leases having remaining terms in excess of one year as of December 31, 2014 are as follows (in thousands):

2015	$6,208
2016	5,067
2017	5,837
2018	5,697
2019	4,965
Thereafter	13,624
Total	$41,398

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (continued)
Revolving Credit Facility
In September 2011, the Company reduced its outstanding line of credit with the Bank of Montreal from $15.0 million to $3.0 million. The Company's line of credit expired on February 15, 2015 and has not been renewed. As such, the Company has reclassified the $5.0 million in restricted cash to current assets at December 31, 2014. 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 which is presented as restricted cash in the Company's consolidated balance sheets. Any amounts outstanding under the line of credit accrued interest at the greater of (i) the bank-established prime commercial rate, (ii) a LIBOR plus 1% rate, (iii) 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. As of December 31, 2014 and 2013, the Company had outstanding letters of credit of approximately $0.7 million and $0.9 million, respectively.
Legal Proceedings
The Company is subject to various claims, 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.
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 the 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 PHI. 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. As previously disclosed, 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.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (continued)

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 its 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 its 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, subject to court approval. On February 26, 2015, plaintiffs in the action pending in the U.S. District Court for the Northern District of Illinois filed a motion seeking preliminary approval of that settlement, which was granted on March 19, 2015. A final fairness hearing is scheduled for July 23, 2015.

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. The Company continues to believe it has meritorious defenses and intend 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.

F-30

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (continued)

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 allegations are that the Company attempted to collect debts without providing the notice required by the FDCPA and attempted to collect debts after they were discharged in bankruptcy. The Company believes that it has meritorious defenses and intends to vigorously defend itself against these claims. 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. 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 are 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 a former employee before the Maine Human Rights Commission 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. The Plaintiff has filed a parallel qui tam action in the District of 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 has not been served on any defendant. The Company believes that it has meritorious defenses to both the MHRC action and the federal court case, and intends to vigorously defend itself against these claims. The outcomes are not presently determinable.

Note 11. 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.

While managed independently and governed by separate contracts, several of the Company’s RCM customers are affiliated with a single healthcare system. The Company evaluates each separate affiliated contract as a customer. The Company has between 25 and 30 individual customers for RCM Services in each of the three years ended December 31, 2014, 2013, and 2012. The Company recognizes revenue on RCM services when there is a contract termination or other contractual agreement event, as defined in Note 2, Summary of Significant Accounting Policies in accordance with its accounting policy. The Company’s revenue is not consistent with its cash flows in that cash may be accumulated over 3 to 5 years prior to a revenue recognition event. Therefore, measuring customers as a percent of total revenue may not be meaningful.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

Note 11. Segments and Customer Concentrations (continued)
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. In 2014, 2013, and 2012, net services revenue from hospitals affiliated with Ascension Health represented 12%, 73% and 5% of the Company's total net services revenue, respectively. An affiliate of Ascension Health, individually, accounted for 12%, 28% and 1% of the Company's total net services revenue for 2014, 2013, and 2012, respectively.
The Ascension Health system, through its individual customer contracts with the Company, account for more than 76%, 55% and 73% of the Company's total deferred customer billings at December 31, 2014, 2013, and 2012, respectively. The loss of the customers within this large health system would have a material adverse impact on the Company's operations.
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 December 31, 2014, 2013, and 2012.
Note 12. Subsequent Events
The Company entered into a settlement agreements with two customers after the year ended December 31, 2014 which will result in revenue recognition events for the Company under its revenue recognition policy (see Note 2) in the year ended December 31, 2015. These agreements did not have a significant impact on the Company's deferred customer billings, assets or liabilities at December 31, 2014.
Note 13. Quarterly Financial Information (Unaudited)
The following tables provide our Quarterly Condensed Consolidated Statements of Operations (in thousands, except per share data):

	1st Quarter Ended March 31,		2nd Quarter Ended June 30,		3rd Quarter Ended September, 30		4th Quarter Ended December 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
Net services revenue	$12,964	$28,157	$58,975	$374,408	$90,745	$18,342	$47,456	$83,861
Total operating expenses	97,599	70,621	86,167	76,854	76,001	79,288	79,026	73,903
Income (loss) from operations	(84,635)	(42,464)	(27,192)	297,554	14,744	(60,946)	(31,570)	9,958
Net income (loss)	$(54,723)	$(26,465)	$(16,799)	$187,733	$9,553	$(37,571)	$(17,651)	$6,386
Net income (loss) per common share								
Basic	$(0.57)	$(0.28)	$(0.18)	$1.96	$0.10	$(0.39)	$(0.18)	0.07
Diluted	$(0.57)	$(0.28)	$(0.18)	$1.93	$0.10	$(0.39)	$(0.18)	0.07