

Accretive Health, Inc.
Form 10-Q
June 23, 2015

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

(Mark One)

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

For the quarterly period ended June 30, 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

02-0698101

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

401 North Michigan Avenue Suite 2700 Chicago, Illinois 60611

(Address of principal executive offices)

(Zip code)

(312) 324-7820

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Accretive Health, Inc.
FORM 10-Q

For the period ended June 30, 2014
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PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Accretive Health, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 154,120	\$ 228,891
Restricted cash	5,000	—
Accounts receivable, net	13,478	24,557
Prepaid income taxes	10,008	9,738
Current deferred tax assets	96,462	105,015
Other current assets	10,137	6,943
Total current assets	289,205	375,144
Property, equipment and software, net	14,859	16,275
Non-current deferred tax assets	158,622	112,993
Restricted cash	—	5,000
Goodwill and other assets, net	309	579
Total assets	\$ 462,995	\$ 509,991
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 6,249	\$ 4,254
Current portion of customer liabilities	298,572	356,694
Accrued compensation and benefits	10,918	11,810
Other accrued expenses	13,863	20,046
Total current liabilities	329,602	392,804
Non-current portion of customer liabilities	267,917	195,392
Other non-current liabilities	6,467	7,407
Total liabilities	603,986	595,603
Stockholders' equity (deficit):		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 101,350,241 shares issued and 96,760,212 shares outstanding at June 30, 2014; 100,525,241 shares issued and 96,010,911 shares outstanding at December 31, 2013	1,014	1,005
Additional paid-in capital	299,531	283,439
Accumulated deficit	(389,419)	(317,897)
Accumulative other comprehensive loss	(1,200)	(1,459)
Treasury stock	(50,917)	(50,700)
Total stockholders' equity (deficit)	(140,991)	(85,612)
Total liabilities and stockholders' equity (deficit)	\$ 462,995	\$ 509,991
See accompanying notes to condensed consolidated financial statements		

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Accretive Health, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Net services revenue	\$58,975	\$374,408	\$71,939	\$402,565
Operating expenses:				
Costs of services	47,949	49,926	92,881	97,459
Selling, general and administrative	19,458	18,675	36,824	40,732
Restatement and other	18,760	8,253	54,061	9,284
Total operating expenses	86,167	76,854	183,766	147,475
Income (loss) from operations	(27,192)	) 297,554	(111,827)	) 255,090
Net interest income	52	57	152	118
Income (loss) before income tax provision	(27,140)	) 297,611	(111,675)	) 255,208
Income tax provision (benefit)	(10,341)	) 109,878	(40,153)	) 93,940
Net income (loss)	\$(16,799)	) \$187,733	\$(71,522)	) \$161,268
Net income (loss) per common share				
Basic	\$(0.18)	) \$1.96	\$(0.75)	) \$1.69
Diluted	\$(0.18)	) \$1.93	\$(0.75)	) \$1.66
Weighted average shares used in calculating net income (loss) per common share:				
Basic	95,753,302	95,679,451	95,738,326	95,677,588
Diluted	95,753,302	97,029,115	95,738,326	97,013,632
Consolidated statements of comprehensive income (loss)				
Net income (loss)	(16,799)	) 187,733	(71,522)	) 161,268
Other comprehensive income (loss):				
Foreign currency translation adjustments	21	(543)	) 259	(509)
Comprehensive income (loss)	\$(16,778)	) \$187,190	\$(71,263)	) \$160,759

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended	
	June 30,	2013
	2014	
	(Unaudited)	
Operating activities:		
Net income (loss)	\$ (71,522	) \$ 161,268
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	2,876	3,522
Share-based compensation	18,081	13,461
Loss on disposal	223	—
(Recoveries)/Provision for doubtful receivables	(494	) 13
Deferred income taxes	(39,226	) 93,880
Excess tax benefits from share-based awards	(176	) (36
Changes in operating assets and liabilities:		
Accounts receivable	11,646	(498
Prepaid income taxes	(54	) (588
Other assets	(2,954	) (1,922
Accounts payable	1,987	(356
Accrued compensation and benefits	(895	) 4,573
Other liabilities	(7,180	) 6,848
Customer liabilities	14,403	(252,480
Net cash provided by (used in) operating activities	(73,285	) 27,685
Investing activities:		
Purchases of property, equipment and software	(1,650	) (778
Net cash used in investing activities	(1,650	) (778
Financing activities:		
Excess tax benefit from share-based awards	176	36
Exercise of vested stock options	—	5
Purchase of treasury stock	(217) —
Net cash provided by (used in) financing activities	(41	) 41
Effect of exchange rate changes on cash	205	(177
Net increase (decrease) in cash and cash equivalents	(74,771	) 26,771
Cash and cash equivalents at beginning of period	228,891	176,956
Cash and cash equivalents at end of period	\$ 154,120	\$ 203,727

See accompanying notes to condensed consolidated financial statements

Accretive Health, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 — BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

Business Description

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect the Company's financial position as of June 30, 2014, the results of operations for the three and six months ended June 30, 2014 and 2013, and the cash flows of the Company for the six months ended June 30, 2014 and 2013. These financial statements include the accounts of Accretive Health, Inc. and its wholly owned subsidiaries. All material intercompany amounts have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and as required by the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and six months ended June 30, 2014, are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2014.

When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. For a more complete discussion of the Company's significant accounting policies and other information, the unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Accretive Health, Inc.

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

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") and are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company's management believes that the impact of recently issued accounting pronouncements does not have a material impact on the Company's consolidated financial position, results of operations, and cash flows, or do not apply to the Company's operations.

In July 2013, the FASB issued Accounting Standards Update ("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. The adoption of ASU 2013-11 did not have a significant impact on our consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity", which amends current accounting guidance on foreign currency matters. This guidance requires that the entire amount of a cumulative translation adjustment related to an entity's investment in a foreign entity should be released when there has been a: (i) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, (ii) loss of a controlling financial interest in an investment in a foreign entity, and (iii) step acquisition for a foreign entity. The Company adopted this guidance in the first quarter of 2014. The adoption of ASU 2013-05 did not have a significant impact on our consolidated financial statements.

In May 2014, the FASB issued Update No. 2014-09, "Revenue from Contracts with Customers", which provides guidance for revenue recognition. The updated standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This 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. In April 2015, the FASB proposed deferring the standard effective date by one year. We are currently in the process of evaluating the impact of the adoption of this prospective guidance on our consolidated financial statements.

Accretive Health, Inc.

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

NOTE 3 — FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The Company's financial assets are measured at fair value.

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

	June 30, 2014 (Unaudited)	December 31, 2013
Level 1 assets		
Money market funds with maturities of less than 90 days	146,646	217,065
Total	\$ 146,646	\$ 217,065

The Company does not have any financial liabilities that are required to be measured at fair value on a recurring basis.

NOTE 4 — ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

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

Accretive Health, Inc.

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2014 (unaudited)	2013	June 30, 2014 (unaudited)	2013
Beginning balance	\$232	\$193	\$740	\$183
(Recoveries)/Provision	21	3	(494)	13
Write-offs	—	—	7	—
Ending balance	\$253	\$196	\$253	\$196

NOTE 5 — PROPERTY, EQUIPMENT AND SOFTWARE

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

	June 30, 2014 (unaudited)	December 31, 2013
Computer and other equipment	\$16,665	\$16,630
Leasehold improvements	13,400	13,346
Software	10,379	9,589
Office furniture	3,279	3,258
Property, equipment and software, gross	43,723	42,823
Less: Accumulated depreciation and amortization	(28,864)	(26,548)
Property, equipment and software, net	\$14,859	\$16,275

NOTE 6 — CUSTOMER LIABILITIES

Customer liabilities consist of the following (in thousands):

June 30,